LANSING BWL

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FINANCE COMMITTEE MEETING
AGENDA

July 11, 2017

6:00 p.m.—1201 S. Washington Ave.

Lansing, MI, 48910 — REO Town Depot

Board of Water & Light Headquarters

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of May 16, 2017……………………………………TAB 1

2. May YTD Financial Summary……………………………………………………………………….TAB 2

3. Revised Investment Policy Statements Defined Benefit (DB) and Voluntary Employee Beneficiary Association (VEBA/Post Retirement Benefit Plan) & Resolution………….TAB 3
   a. Statement of Investment Policies, Procedures and Objectives (DB) (Redlined)
   b. Statement of Investment Policies, Procedures and Objectives DB (Final Version)
   c. Statement of Investment Policies, Procedures and Objectives VEBA (Redlined)
   d. Statement of Investment Policies, Procedures and Objectives VEBA (Final Version)
   e. Proposed Revised DB and VEBA Investment Policy Statements Resolution

4. Internal Audit Quarterly Management Response Report-Out …………………………….TAB 4

5. Internal Auditor Status Report...……………………………………………………………………….TAB 5

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
May 16, 2017

The Finance Committee of the Board of Water and Light (BWL) met at the BWL Headquarters – REO Town Depot, located at 1201 S. Washington Ave., Lansing, MI, at 5:00 p.m. on Tuesday, May 16, 2017.

Finance Committee Chair Ken Ross called the meeting to order and requested a roll call.

Present: Commissioners Ken Ross, David Price, Dennis M. Louney and Anthony McCloud. Also present: Commissioners Tony Mullen, Sandra Zerkle and Non-Voting Commissioners Stuart Goodrich, William Long and Robert Nelson.

Absent: None.

The Corporate Secretary declared a quorum.

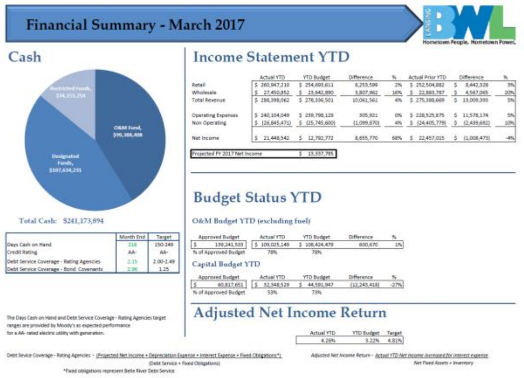
<u>Public Comments</u>
None

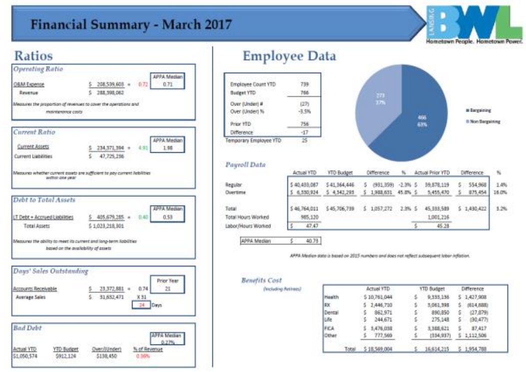
<u>Approval of Minutes</u>
Motion by Commissioner Price, Seconded by Commissioner McCloud, to approve the Finance Committee meeting minutes of March 14, 2017.

Action: Motion Carried.

<u>External Review of Internal Audits at BWL</u>
Internal Auditor Phil Perkins informed the Finance Committee that the required 5-year review conducted by the Professional Standards of the Institute of Internal Auditors (IIA) is complete and is pleased to announce that our internal audit activity passed the recent review by receiving a rating of "generally conforms" to the IIA Standards which is the highest rating that can be attained. The review was performed by an independent external party with expertise in performing such reviews, and the reviewer spent three days on-site interviewing key personnel and reviewing Internal Audit's process, procedures, reports, and supporting documentation. Mr. Perkins stated that there will be more details regarding the results of this independent review presented at a future Finance Committee meeting.

<u>March YTD Financial Summary</u>
Chief Financial Officer (CFO), Heather Shawa presented the following:





CFO Heather Shawa presented the March Year-to-date Financial Summary which indicated that the Cash target is on track, Days cash on hand is 218, and debt service coverage is 2.15, both slightly improved from the prior month. The Year-to-date net income as of March is $8.6 million better than budget and the projected fiscal-year-end net income is approximately $13 million.

April Year-to-date revenues are just over $317 million, which is $10 million better than budget. As far as our net income, April Year-to-date we are just shy of $19 million for net income, which is $8.2 million better than budget. April is forecasted to be a low sales revenue month and we did have a budget loss of $2 million; we have $2.5 million in actual loss, some of which is part of our O&M budget. Year-to-date we are still strong and still project about a $13 million net income for the fiscal year end.

Commissioner Mullen questioned what was included in the "Other" category of the Benefits Cost. In response Chief Financial Officer Heather Shawa-DeCook stated that she believed that was the VEBA adjustment. Chair Ross requested CFO Shawa-DeCook provide information on Commissioner Mullen's question.

Commissioner Sandra Zerkle commented that at this time of year the summary shows that we have a lot of money left over in Capital Expenses and suggested that we include a line in the budget that indicates that we still have so many millions of dollars' worth of projects to be completed during the rest of the year. General Manager Peffley agreed with Commissioner Sandra Zerkle's comments and will look into flagging those expenses in the budget.

FY 18 Budget Presentation/Resolution

General Manager Peffley stated that he is very proud of staff. Last year he asked for a 5% cut and this year staff was asked to hold the line. They have answered the call, although it was very tough, and we have not sacrificed availability, reliability or safety. He said that we are about to embarked on a multiyear rate strategy and he wanted to show that the company has tightened its belt. He said that we can accomplish all of the set goals and meet the strategic plan requirements with the presented budget. This budget is 5% lower than it was 2 years ago.

CFO Heather Shawa presented and reviewed the FY 18 Financial Plan as follows:

Sales Volume Forecast

Utility	FY 18 Budget	FY 17 Budget	FY 18 Budget to FY 17 Budget	FY 17 Projected
Electric-Retail (MWh)	2,131,850	2,137,145	(0.25%)	2,174,799
Electric-Wholesale (MWh)	715,840	767,770	(6.8%)	785,756
Electric-Total (MWh)	2,847,690	2,904,915	(2.0%)	2,960,556
Water (ccf)	8,794,943	8,534,134	3.1%	9,022,337
Steam (mlb)	734,136	744,469	(1.4%)	714,802
Chilled Water (tnhrs)	11,134,000	10,288,000	8%	11,952,000

Electric:
- Retail sales volume is relatively unchanged due to our underlying growth rate of approximately 1% being offset by our continued ability to generate 1% energy savings annually through our energy optimization programs.
- Wholesale sales volume is expected to decrease due to reductions in generation at our Eckert plant.

Water:
- Retail sales volume is expected to decline slightly due to continued water conservation efforts. This decrease is offset by increases in wholesale water sales. Delta Township, in particular, is anticipating increased demand in its service territory.

Steam:
- Steam sales volume expectations have been reduced slightly from the prior year to reflect recent, actual experience.

Chilled Water:
- Chilled water sales volume expectations have been increased to reflect recent, actual experience.

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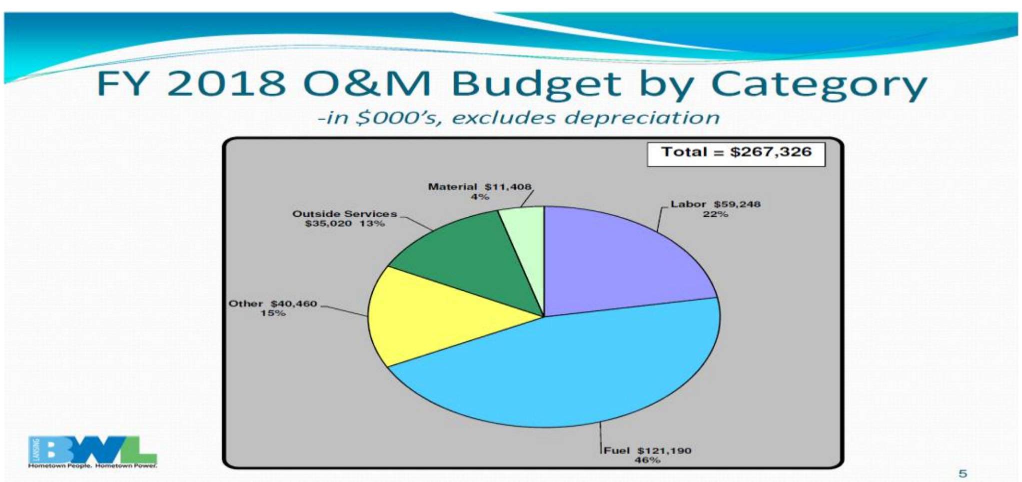
General Manager Peffley commented that wholesale revenue denotes a reduction in the revenue forecast due to a one unit operation at the Eckert plant, and this is included in the planning for the future.

Commissioner Ross stated in summary that the lack of reliance on the Eckert facility results in less power being sent out into the wholesale market, which ultimately results in less revenue for the BWL over the next couple of years.



Chief Financial Officer Heather Shawa stated The FY 2018 O&M expenses (excluding fuel) increased by 5% compared to FY 2017 budgeted O&M expenses; the total FY 2018 O&M expenses decreased by 4% when including an $18 million decrease in fuel cost. The Forecasted CPI Index is a 2.4% Inflation rate that has been factored in. The FY 2018 budget assumes 756 employees, an increase of 2 from FY 2017 budgeted employees. The FY 2018 budget assumes 18 temporary employees.

General Manager Peffley said it is important to note that this is the first budget that includes succession planning, which is a very expensive process but can no longer be delayed.

CFO Shawa continued the review with the following:

FY 2018 Income Statement by Utility

$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
SALES (MWh, ccf, Mlb, ton-hrs)	2,847,690	8,794,943	734,136	11,134,000	
Retail	$ 269,569	$ 36,669	$ 12,159	$ 6,037	$ 324,434
Wholesale	$ 26,977	$ 4,033	$ -	$ -	$ 31,010
OPERATING REVENUE	**$ 296,546**	**$ 40,702**	**$ 12,159**	**$ 6,037**	**$ 355,444**
Operation & Maintenance Expense	$ (228,749)	$ (28,737)	$ (7,120)	$ (2,720)	$ (267,326)
Depreciation Expense	$ (34,224)	$ (7,340)	$ (2,826)	$ (1,489)	$ (45,879)
OPERATING EXPENSE	**$ (262,973)**	**$ (36,077)**	**$ (9,946)**	**$ (4,209)**	**$ (313,205)**
OPERATING INCOME	**$ 33,573**	**$ 4,625**	**$ 2,213**	**$ 1,828**	**$ 42,239**
Return on Equity	$ (17,498)	$ (2,376)	$ (729)	$ (364)	$ (20,967)
Other Non-Operating Income	$ 1,746	$ 1,219	$ 76	$ 51	$ 3,092
Other Non-Operating Expense	$ (10,839)	$ (2,157)	$ (1,886)	$ (586)	$ (15,468)
NET INCOME (LOSS)	**$ 6,982**	**$ 1,311**	**$ (326)**	**$ 929**	**$ 8,896**
RATE OF RETURN	**3.03%**	**1.38%**	**2.25%**	**5.73%**	**2.60%**
BUDGETED RATE INCREASE EFFECTIVE 2/1/18	**3.00%**	**5.50%**	**5.50%**	**0.00%**	

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The next two slides are comparative income statements based on initial requests from Management and after our strategic alignment and review.

Comparative Income Statement

Based on Initial Requests Prior to Strategic Alignment and Review

In $000's	FY 2018 Budget	FY 2017 Budget	Increase/ (Decrease)
OPERATING REVENUE	$ 355,444	$ 366,415	(3%)
OPERATION AND MAINTENANCE EXPENSE			
GROSS LABOR	67,387	62,507	8%
LABOR TO CAPITAL	(6,006)	(7,255)	(17%)
NET LABOR	61,381	55,252	11%
MATERIAL	11,445	12,357	(7%)
OTHER - Including Benefits	38,430	44,131	(13%)
OUTSIDE SERVICE	39,226	27,502	43%
FUELS, WATER CHEMICALS & AMINE	121,190	139,089	(13%)
OPERATIONS AND MAINTENANCE EXPENSE	$ 271,672	$ 278,331	(2%)
Depreciation Expense	45,879	43,153	6%
TOTAL OPERATING EXPENSE	$ 317,551	$ 321,484	(1%)
OPERATING INCOME	$ 37,893	$ 44,931	(16%)
Return on Equity	(20,967)	(22,007)	(5%)
Other Non-Operating Income/(Expense)	(12,376)	(12,810)	(3%)
NET INCOME	$ 4,550	$ 10,113	(55%)

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Comparative Income Statement

After Strategic Alignment and Review

In $000's	FY 2018 Budget	FY 2017 Budget	Increase/ (Decrease)
OPERATING REVENUE	$ 355,444	$ 366,415	(3%)
OPERATION AND MAINTENANCE EXPENSE			
GROSS LABOR	65,750	62,507	5%
LABOR TO CAPITAL	(6,502)	(7,255)	(10%)
NET LABOR	59,248	55,252	7%
MATERIAL	11,408	12,357	(8%)
OTHER - Including Benefits	40,460	44,131	(8%)
OUTSIDE SERVICE	35,020	27,502	27%
FUELS, WATER CHEMICALS & AMINE	121,190	139,089	(13%)
OPERATIONS AND MAINTENANCE EXPENSE	$ 267,326	$ 278,331	(4%)
Depreciation Expense	45,879	43,153	6%
TOTAL OPERATING EXPENSE	$ 313,205	$ 321,484	(3%)
OPERATING INCOME	$ 42,239	$ 44,931	(6%)
Return on Equity	(20,967)	(22,007)	(5%)
Other Non-Operating Income/(Expense)	(12,376)	(12,810)	(3%)
NET INCOME	$ 8,896	$ 10,113	(12%)

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FY 2018 Cash Flow by Utility

$(000)	ELECTRIC	WATER	STEAM	CHILLED WATER	TOTAL
BEGINNING OPERATING CASH	58,671	13,061	5,438	3,756	80,926
Sources of Cash					
Net Income	$ 6,983	$ 1,311	$ (326)	$ 928	$ 8,896
Depreciation	$ 34,224	$ 7,340	$ 2,826	$ 1,489	$ 45,879
Loss on Sale of Assets	$ 1,547	$ 266	$ 101	$ -	$ 1,914
Borrowing	$ 50,000	$ -	$ -	$ -	$ 50,000
Withdrawal from Construction Reserve	$ 24,652	$ 5,490	$ 2,283	$ 1,575	$ 34,000
Fuel Cost Undercollection	$ 2,663	$ (141)	$ (464)	$ -	$ 2,058
Net Environmental	$ 4,444	$ -	$ 166	$ -	$ 4,610
Pipeline Refund	$ 2,390	$ -	$ 455	$ -	$ 2,845
SOURCES OF CASH	$ 126,903	$ 14,266	$ 5,041	$ 3,992	$ 150,202
Uses of Cash					
Debt Principal	$ (5,069)	$ (2,510)	$ (1)	$ (1,525)	$ (9,105)
Net Capital Expenditures	$(115,633)	$ (12,987)	$ (9,484)	$ (1,415)	$ (139,519)
Renewable Energy & EO Plans	$ (834)	$ -	$ -	$ -	$ (834)
Other Uses of Cash	$ (184)	$ (41)	$ (17)	$ (11)	$ (253)
USES OF CASH	$(121,720)	$ (15,538)	$ (9,502)	$ (2,951)	$ (149,711)
Net Cash Increase/(Decrease)	$ 5,183	$ (1,272)	$ (4,461)	$ 1,041	$ 491
ENDING OPERATING CASH	63,854	11,789	977	4,797	81,417

Beginning Operating Cash includes O & M Fund and Receiving Fund only, Designated funds and Restricted Bond Funds not included ($107.6 and $34.2 million respectively as of March 31, 2017)

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CFO Shawa pointed out that the $50 million under Borrowing represents a preliminary estimation of spending for the new gas plant.

CFO Shawa reviewed the budget summary by utility and location:

FY 2018 Capital Budget Summary

Dollars in (000's)

UTILITY	
ELECTRIC	$ 54,331
WATER	$ 7,547
STEAM	$ 8,730
CHILLED WATER	$ 450
COMMON	$ 18,457
*INTERNALLY FUNDED CAPITAL BUDGET	$ 89,516
NEW NGCC PLANT	$ 50,000
TOTAL CAPITAL BUDGET	**$ 139,516**

LOCATION	
ECKERT	$ 185
ERICKSON	$ 199
REO PLANT	$ 3,000
T&D	$ 64,583
DYE/CEDAR	$ 2,327
CHILLER PLANT	$ 440
MOORE'S PARK	$ 463
NEW NGCC PLANT	$ 50,000
OTHER	$ 18,319
TOTAL CAPITAL BUDGET	**$ 139,516**

* This total DOES NOT include the New NGCC (Natural Gas Combined Cycle) Plant

CFO Shawa reviewed the FY 2018 Capital Budget and projects:

FY 2018 Capital Budget – Major Projects/Program

	Project Title	Project Total	FY 2018
	Planned Projects		
*	New NGCC Plant	TBD	50,000,000
**	Smart Grid Implementation (AMI/MDM)	30,950,000	9,400,000
*	Central Substation	25,800,000	14,339,000
*	Erickson to Willow 138kV Line Extension	22,683,676	18,286,810
	High Pressure Steam Parallel Supply	5,179,000	5,179,000
*	REO - Rental Standby Steam Boilers	5,040,000	3,000,000
**	ESRI Implementation	5,904,000	1,106,711
	Willow Yard Expansion	4,471,000	3,713,058
	Erickson Yard Expansion	3,707,000	2,759,598
	GroSolar Interconnection Project	3,596,675	1,783,365
**	ADMS	3,353,000	868,000
*	Burcham 4160V Sub Cutover and Retirement	2,235,000	1,500,000
*	Central Sub - Distribution	1,600,000	50,000
	Infrastructure Deep Dive Execution	1,500,000	1,500,000
	Asset Mgmt - CityWorks Implementation	1,500,000	250,000
	Calciner Bldg. Unit Sub. Replacement	1,606,800	1,306,800
	MP - Tainter Gate Trunnion Pin Replacement	1,098,000	163,300
	IT - Enterprise Service Bus	1,055,000	1,055,000
	IT - Mainframe Migration and Transition	1,000,000	500,000
	Capital Spending - Major Planned Projects		116,760,642
	% of $139.5M Requested Capital Budget		84%
	Annual Projects ***		
	Electric - Services & Line Extensions	12,711,528	2,000,000
	Electric - T & D Systems	16,327,958	2,569,000
	Electric - Street, Building & Outdoor Protective Lighting	11,662,827	1,835,000
	Water - System Improvement	13,099,000	2,364,000
	Common - Fleet Vehicles & Equipment	10,188,289	1,603,000
	Water - Street Reconstruction	6,370,000	922,628
	Capital Spending - Annual Projects		11,293,628
	% of $139.5M Requested Capital Budget		8%
	FY 2018 Capital Spending - Major Projects		128,054,270
	% of $139.5M Requested Capital Budget		92%

* These projects support the retirement of Eckert.
** These represent the major ETT projects.
*** Annual projects have some level of spending each year.
The project total represents 6 year spending.

In conclusion, Ms. Shawa requested that the Board approve the FY18 budget and forward it to the full Board for consideration at the May 23, 2017 Regular Board meeting. She stated that the Charter calls for the budget adoption by June 1, 2017. Once the budget is approved it will be filed with the City Clerk within 10 days upon approval.

Motion by Commissioner Price, Seconded by Commissioner McCloud to forward the FY 2018 Financial Plan to the full Board for consideration.

Action: Motion Carried

<u>Other</u>

None

<u>Adjourn</u>

On Motion by Commissioner Price, Seconded by Commissioner Louney, the meeting adjourned at 5:44 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

Financial Summary - May 2017

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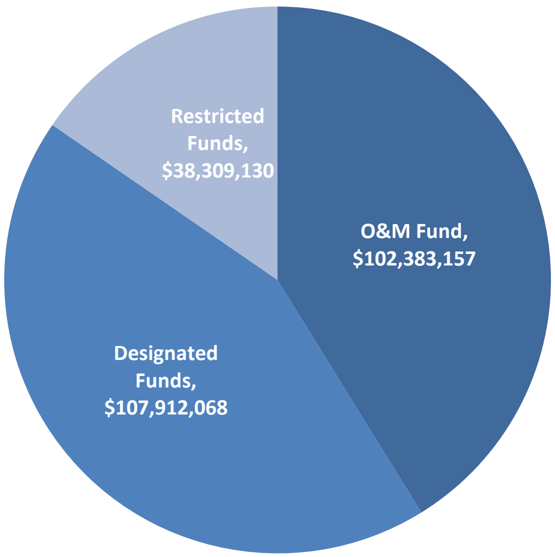
Cash



Total Cash: $248,604,355

	Month End	Target
Days Cash on Hand	222	150-249
Credit Rating	AA-	AA-
Debt Service Coverage - Rating Agencies	2.19	2.00-2.49
Debt Service Coverage - Bond Covenants	3.04	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies target ranges are provided by Moody's as expected performance for a AA- rated electric utility with generation.

Income Statement YTD

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Retail	$ 312,215,589	$ 306,885,815	5,329,774	2%	$ 304,309,271	$ 7,906,318	3%
Wholesale	$ 33,403,146	$ 28,877,688	4,525,458	16%	$ 25,537,876	$ 7,865,270	31%
Total Revenue	$ 345,618,735	$ 335,763,503	9,855,232	3%	$ 329,847,148	$ 15,771,588	5%
Operating Expenses	$ 293,940,482	$ 293,345,141	595,341	0%	$ 277,671,259	$ 16,269,223	6%
Non Operating	$ (31,407,269)	$ (31,202,742)	(204,528)	1%	$ (30,071,235)	$ (1,336,034)	4%
Net Income	$ 20,270,983	$ 11,215,620	9,055,363	81%	$ 22,104,653	$ (1,833,670)	-8%

Projected FY 2017 Net Income	$ 15,139,079

Budget Status YTD

O&M Budget YTD (excluding fuel)

	Approved Budget	Actual YTD	YTD Budget	Difference	%
	$ 139,241,533	$ 136,559,764	$ 134,395,114	2,164,650	2%
% of Approved Budget		98%	97%		

Capital Budget YTD

	Approved Budget	Actual YTD*	YTD Budget	Difference	%
	$ 60,817,651	$ 40,591,703	$ 54,615,842	(14,024,139)	-26%
% of Approved Budget		67%	90%		

*YTD capital spending has been down overall, but as we continue through the construction season, actual spending should continue to move closer to budgeted amounts.

Adjusted Net Income Return

Actual YTD	YTD Budget	Target
4.32%	3.29%	4.81%

Debt Sevice Coverage - Rating Agencies - $\frac{\text{Projected Net Income + Depreciation Expense + Interest Expense + Fixed Obligations*}}{\text{Debt Service + Fixed Obligations}}$

*Fixed obligations represent Belle River Debt Service

Adjusted Net Income Return - $\frac{\textit{Actual YTD Net Income increased for interest expense}}{\textit{Net Fixed Assets + Inventory}}$

Financial Summary - May 2017

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Ratios

Operating Ratio

				APPA Median
O&M Expense	$ 255,326,454	=	0.74	0.71
Revenue	$ 345,618,735			

Measures the proportion of revenues to cover the operations and maintenance costs

Current Ratio

				APPA Median
Current Assets	$ 241,258,224	=	4.25	1.98
Current Liabilities	$ 56,803,170			

Measures whether current assets are sufficient to pay current liabilities within one year

Debt to Total Assets

				APPA Median
LT Debt + Accrued Liabilities	$ 414,437,350	=	0.40	0.53
Total Assets	$ 1,030,798,806			

Measures the ability to meet its current and long-term liabilities based on the availability of assets

Days' Sales Outstanding

				Prior Year
Accounts Receivable	$ 22,736,462	=	0.77	34
Average Sales	$ 29,709,601		X 31	
			25	Days

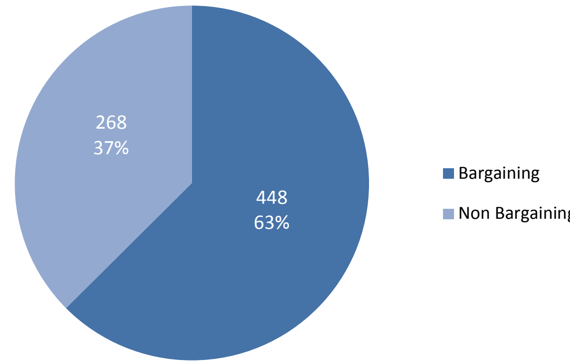
Bad Debt

APPA Median 0.27%

Actual YTD	YTD Budget	Over/(Under)	% of Revenue
$1,526,117	$1,121,464	$404,653	0.44%

Employee Data

Employee Count YTD	716
Budget YTD	766
Over (Under) #	(50)
Over (Under) %	-6.5%
Prior YTD	722
Difference	-6
Temporary Employee YTD	41



Payroll Data

	Actual YTD	YTD Budget	Difference	%	Actual Prior YTD	Difference	%
Regular	$ 51,234,561	$52,267,677	$ (1,033,116)	-2.0%	$ 50,422,171	$ 812,390	1.6%
Overtime	$ 7,565,267	$ 5,408,971	$ 2,156,296	39.9%	$ 6,965,922	$ 599,345	8.6%
Total	$ 58,799,828	$57,676,648	$ 1,123,180	1.9%	$ 57,388,093	$ 1,411,735	2.5%
Total Hours Worked	1,251,236				1,277,815		
Labor/Hours Worked	$ 46.99				$ 44.91		

APPA Median	$ 40.73

APPA Median data is based on 2015 numbers and does not reflect subsequent labor inflation.

Benefits Cost

(Including Retirees)

	Actual YTD	YTD Budget	Difference
Health	$ 13,317,997	$ 11,522,077	$ 1,795,919
RX	$ 2,997,767	$ 3,741,709	$ (743,942)
Dental	$ 1,107,816	$ 1,092,905	$ 14,911
Life	$ 299,608	$ 334,123	$ (34,515)
FICA	$ 4,382,710	$ 4,141,648	$ 241,062
Other	$ 848,518	$ (430,711)	$ 1,279,228
Total	$ 22,954,415	$ 20,401,751	$ 2,552,664

LANSING BOARD OF WATER & LIGHT DEFINED BENEFIT PLAN FOR EMPLOYEES' PENSIONS

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Effective July 25, 2017~~September 27, 2016~~, except as otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Table of Contents

Introduction

The Lansing Board of Water and Light ("**BWL**") is a municipally owned utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan. The Plan receives contributions from the Lansing Board of Water and Light. The Plan pays retirement benefits provided for in the Plan. Plan assets are invested in various types of securities.

This Statement of Investment Policy ("**Statement**") is issued by the Commissioners of the Lansing Board of Water & Light (the "**Commissioners**") for the Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions ("**Plan**"). The purpose of this Statement is to (i) identify and present a set of investment objectives, an asset allocation policy, investment performance standards and procedures for managing the Plan's assets; and (ii) clarify the delegation of certain investment-related duties to the Retirement Plan Committee. This document is intended to be consistent with the provisions of Michigan Public Act 314 of 1965 ("**Act 314**"), as amended.

Updates to Statement

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with the BWL's investment philosophy. Any revisions or updates made to the Statement shall be communicated to the Trustees from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

Trustees

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water & Light. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee, effective as of the date on which this Statement is acknowledged by the Trustees by signature of an authorized representative of the Trustees. As of that date, all provisions in this Statement relating to the Retirement Plan Committee shall become operative.

Responsibility for selecting and providing direction to Investment Managers, Investment Consultants, custodians, and other administrators required for the management of the Plan's assets and for evaluating overall investment results has been delegated to the Retirement Plan Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees, in evaluating the Retirement Plan Committee's actions, shall act in accordance with the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees in writing.

Purpose of the Plan

The Plan was established for the purpose of providing retirement benefits to eligible employees and their beneficiaries. The Plan was closed to new employees hired after

December 31, 1996. The Plan is a governmental defined benefit pension plan which provides retirement, early retirement, disability, termination, and death benefits based upon a formula that includes final average compensation, years of credited service, and a pension benefit percentage. An investment portfolio is maintained to invest employer contributions and to reinvest income.

Investment Philosophy

The Commissioners, Trustees and the Retirement Plan Committee recognize their respective fiduciary duties to invest the Plan's assets in formal compliance with the Prudent Man Rule. The Trustees interpret this to mean that, in addition to the specific guidelines and restrictions set forth in this document, the assets of the Plan shall be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. Further, the Trustees recognize that, commensurate with its overall objective of maximizing long-range returns while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity for adherence to proper diversification, the Trustees and the Retirement Plan Committee rely upon appropriate professional advice.

Delegation of Responsibilities

Retirement Plan Committee

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

More specifically, the Retirement Plan Committee's responsibilities include:

1. Complying with the provisions of pertinent federal, state, and local laws and regulations relating to the investment of Plan assets.
2. Evaluating and appointing a qualified manager(s) and consultant(s) to invest and manage the Plan's assets.
3. Communicating the investment goals, objectives, and standards to the investment managers including any material changes that may subsequently occur.
4. Determining, with the advice of the Investment Consultant ("Consultant"), how Plan assets should be allocated among various asset classes.
5. Review and evaluate the results of the Investment Manager(s) ("Manager(s)") in context with established standards of performance.
6. Taking whatever corrective action is deemed prudent and appropriate when an investment manager fails to perform as mutually expected.
7. The Retirement Plan Committee will notify the Manager(s) of:
   a) Significant changes in the Plan cash flow and/or cash flow needs; and
   b) Any matter which bear upon the proper investment management of the Plan's assets, including pertinent financial, legal, and actuarial information.
9. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.

10. Review any program that may mitigate or offset costs.

The Retirement Plan Committee shall give consideration to and have an understanding of the following prior to retaining professionals:

1. Establishing standards/requirements/appropriateness of services.
2. Identification of appropriate candidates for the position.
3. Solicitation of bids and proposals.
4. Conduct interviews.
5. Check references.
6. Make reasoned decisions based on all information, including:
   a) Philosophy/Goals (i.e., Mission Statement)
   b) Ownership/Management/Organizational Structure/Turnover
   c) Operational History/Growth Plan
   d) Infrastructure: Resources/Tools-of-the-Trade
   e) Financial Condition
   f) Educational Background/Industry Experience
   g) Professional Qualifications
   h) Risk Controls/ Insurance
   I) Criminal, Civil, Regulatory History
   j) Fees
   k) Liquidity
7. Document the decision process.
8. Verify compliance with federal and state laws; specifically, Act 314, and Investment Guidelines.
9. Establish standards of conduct, terms and conditions of relationship (Written Contract/Agreement).

Investment Consultant

In carrying out its delegated responsibilities, the Retirement Plan Committee considers the services of a Consultant as appropriate to assist in the placement of investment funds. The primary role of the Consultant is to provide independent, objective, third-party advice and counsel that will enable the Retirement Plan Committee to make well-informed and timely decisions regarding the investment of the Plan's assets.

The Consultant's role is that of an advisor to the Plan. The Consultant acknowledges its responsibilities as a fiduciary under Act 314. The Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act.

Investment advice concerning the investment management of Plan assets will be offered by the Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. In specific terms, the primary responsibilities of the Consultant are as follows:

1. Measure and evaluate investment performance each calendar quarter.
2. Evaluate the Plan's tolerance for risk.

3. Advise regarding appropriate investment objectives and goals based on the Plan's needs and risk tolerance.
4. Determine what degree of potential market volatility should be factored into the investment approach.
5. Based on all of the above, advise regarding optimal allocation of assets.

<u>Providing a Range of Capabilities</u>
The Consultant is a third party retained by the Retirement Plan Committee to assist in several key areas of the management of financial assets.

The Consultant may be asked to:
1. Gather and evaluate statistical information on the financial assets, investment needs, and risk parameters.
2. Analyze and understand the implications of historic capital market behavior, particularly with regard to the trade-off between total rate of return and investment risk.
3. Maintain data on the universe of available professional investment managers, and categorize (as to investment style and discipline) and evaluate the qualifications of the individual management firms.
4. Provide periodic asset allocation studies and updates.
5. Conduct periodic trustee educational workshops.
6. Provide information with respect to alternate investments.
7. Monitor the investment of the Plan's assets for compliance with Act 314.
8. Analyze and evaluate the Plan's investment performance, and the performance of its investment managers, both past and ongoing.
9. Make specific and timely recommendations for the consideration of the Management during each phase of the investment management process.
10. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.

<u>Making Recommendations</u>
Investment Policy - The Consultant may be asked to recommend an appropriate investment policy that will meet the Plan's needs. This includes recommending investment objectives and guidelines that adhere to the goals and tolerance for risk. The Consultant may be asked to provide an appropriate model of asset allocation composed of equity, fixed-income, money market instruments or alternative investments designed to meet the established objectives.

Manager Selection - The Consultant may be asked to recommend the best qualified and most appropriate Manager(s) candidates for implementing the established investment policy. The Consultant shall be capable of utilizing a well-established system to select suitable Manager(s) candidates from both a local and national investment manager database.

Manager Performance Review and Evaluation
The Consultant shall provide the Retirement Plan Committee with performance reports and ongoing quality control to assure that the standards and investment objectives are maintained. Performance reports generated by the Consultant shall be compiled at least quarterly and communicated to the Retirement Plan Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Retirement Plan Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a Manager(s) for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant qualitative changes to a Manager(s) organization.

Manager(s) shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Investment Manager(s)
Each Manager acknowledges its responsibility as an investment fiduciary under Act 314. Each Manager acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. Each Manager will have full discretion to make all investment decisions for the assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

Adherence to Policy Guidelines and Objectives
The assets of the Plan are to be managed in accordance with the policy guidelines and objectives expressed herein as well as any additional guidelines provided separately. Assets shall be invested in strict compliance with Act 314. Each Manager shall manage its individual portfolio in compliance with Act 314.

Discretionary Authority
Each Manager is expected to exercise complete investment discretion. Such discretion includes decisions to buy, hold and sell equities or fixed income securities (including cash equivalents) in amounts and proportions reflective of the Manager's current investment strategy and compatible with the investment guidelines.

Each Manager is expected, within the limitation of the account size, to diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to so diversify. The investment manager shall invest the assets of the Plan with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims. The investment manager will provide the Retirement Plan Committee with suggested strategy which might be changed or adopted to better suit the investment guidelines adopted by the Retirement Plan Committee.

Communications

Each Manager is responsible for communicating with the Retirement Plan Committee regarding all significant matters pertaining to the investment of the Plan's assets. The Retirement Plan Committee shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the Plan's assets. If requested, Manager(s) will meet with the Retirement Plan Committee on a quarterly basis to review the portfolio and the investment outlook.

Reporting

Each Manager is expected to provide:

1. INITIALLY, a written statement (per management agreement) acknowledging their acceptance of the guidelines and performance standards herein stated.
2. AT LEAST QUARTERLY, a portfolio composition report to the Retirement Plan Committee of the funds under their management. The report shall contain as a minimum the following data:
   a. Investment Review
   i. Account characteristics;
   ii. Investment summary to include asset description, cost, date, unit value, market value, percent of market, current yield, unrealized gains/losses, and estimated annual income;
   iii. Maturity schedule to include year due and percent of total; and
   b. Summary and statement of assets under management.
3. ANNUALLY, and thereafter at the request of the Retirement Plan Committee, participation in a review meeting, the agenda to include, but not restricted to -
   a. A review and re-appraisal of the herein contained Statement;
   b. A brief review of the recent capital market environment to include discussion of any event particularly pertinent to the management of this portfolio;
   c. A commentary on investment results in light of the appropriate standards of performance as stated herein;
   d. A synopsis of key investment decisions made by the Manager, the underlying rationale, and how those decisions could impact future results;
   e. Recommendations as to changes in goals or standards, based upon material and sustained changes in the capital markets;
4. UPON WRITTEN OR ORAL REQUEST -
   a. Copies of all documentation in support of any investment activity;
   b. A summary of receipts and disbursements;
   c. A listing of assets acquired and disposed of;
   d. Evidence of suitable insurance coverage of the Manager's fiduciary responsibilities.

5. IMMEDIATE NOTIFICATION -
   a. Notice of material changes in the Manager's outlook, policy, and tactics
   b. Notice of material changes in ownership, organizational structure, financial condition, senior staffing and management of the Manager's organization.

Each manager's investment guidelines and performance objectives are made a part of their investment management agreement. Compliance with these guidelines and objectives is evaluated during the quarterly investment performance evaluation process.

Custodian

The primary responsibilities of the custodian ("Custodian") are to:
1. Provide adequate safekeeping services.
2. Settle securities transactions on time.
3. Collect trust fund income when due.
4. Provide adequate accounting services.
5. Prepare useful, accurate, and timely investment reports.
6. Provide adequate cash-management services.
7. Provide adequate administrative support.
8. Develop and maintain adequate data processing capabilities.
9. Handle proxy administration promptly and accurately.
10. Complete and file timely proof of claims for settlements of security class action suits and monitor the processing to ensure claims are received.

Plan Investment Policy

The Plan is maintained to provide retirement benefits for the participants and their beneficiaries. The Plan is established in accordance with the laws of the State of Michigan whereby it operates and is controlled, as to its investments, by PA 314.

The Trustees (or their delegate) are authorized and permitted by the Plan Document and under Michigan law to engage the services of a Manager(s), Consultant and Custodian and to set the direction for the investments.

The Trustees require that the Manager(s), Consultant and Custodian comply with all applicable laws, rules and regulations. Manager(s) will be given full discretion in managing the funds within this Statement.

Plan Investment Objectives

The Trustees' attitudes regarding Plan assets combine both preservation of capital and moderate risk-taking. The Trustees recognize 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 Plan.

The policies and restrictions contained in this Statement should not impede the Manager to attain the overall Plan objectives, nor should they exclude the Manager from appropriate investment opportunities.

The Plan's overall investment objective is to earn an average, annual return of 7.5% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

The Plan's objective is 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 risk (volatility, or 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.

Asset Allocation Policy

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 the expected long-term returns, individual reward/risk characteristics, and correlation with other asset classes, manager roles, and fulfillment of the Plan's long-term financial needs. Conformance with PA 314 of 1965 and amendments thereof is also considered.

The Commissioners 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 Commissioners selected the target allocation for each asset class based on the Plan's current financial condition, expected future contributions, withdrawals, plan expenses and current investment opportunities, notwithstanding short-term performance. The Commissioners intend to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives, and asset class performance.

Asset Allocation Policy Index

Asset Class	Manager Role	Allocation Range	Target Allocation
~~U.S. Equities~~Total Equity	Active/Passive	~~35~~40 to 70%	**~~35~~55%**
US Large Cap Equity	Active/Passive	20~~%~~ to -30%	25%
US SMID Cap Equity	Active	5~~%~~ to 15%	10%
Non-U.S. Equities	Active, Broad or Focused	15~~0~~ to 25~~0~~%	~~10~~20%
~~Global~~ Total Fixed Income	Active/Passive Core, Active Opportunistic,~~-~~ Intermediate Diversified	~~30~~ 20 to 50%	**~~35~~40%**
Core Fixed Income	Active/Passive Core, Intermediate Diversified	10 to 30%	20%
Multi-Sector Fixed Income	Active Fixed Income	5 to 15%	10%
Liquid Absolute Return Fixed Income	Active Fixed Income	5 to 15%	10%
Commercial Real Estate	Core, value-added, opportunistic, public or private	0 to 10%	**~~10%~~5%**
~~Alternative Investments*~~	~~Hedge funds, private equity, private debt, real assets~~	~~0 to 15%~~	~~10%~~
Cash Equivalents	Active, money market fund	0 to 5%	0%
	Total Fund		**100.0%**

~~*Current allocation to Alternative Investments is 0%. The 10% allocation will be invested equally between U.S. Equities and Global Fixed Income (5% each).~~

The Trustees acknowledge that alternative asset classes are available and intend to periodically evaluate the merits of using different asset classes. The Trustees also recognize the benefits of diversifying manager roles within a given asset class and intend to periodically evaluate this decision as well as the active versus passive management decision.

In order to preserve capital gains and protect principal during periods of market duress, a short-term U.S. government and/or high-quality credit securities fund may be used.

Given the infrequent short-term use and specialized purpose of this fund, it is not included in the Policy Index.

Administrative and Investment Review Procedures

Review of Policies

All investment policies and investment management guidelines will be reviewed annually by the Trustees, or whenever circumstances change to the extent that the policies may be ineffective or inappropriate.

General Review

Annually, all those responsible for investment of the Plan's assets shall submit a report or meet with the Retirement Plan Committee to review their activities for the current year and discuss proposed changes that are anticipated.

Review of Investment Performance

The Retirement Plan Committee will monitor the investment performance of each manager and the overall deployment of the Plan's assets. Monitoring will include periodic meetings with the Manager(s), and a quarterly performance evaluation performed by the Consultant.

Each performance evaluation will include:

1. The present and prospective economic climate;
2. Current period and historical, time-weighted rates of return for the overall Plan, including an evaluation against the previously specified performance standards;
3. Current period and historical, time-weighted rates of return for each Manager, including an evaluation against the previously specified performance standards;
4. Additional quantitative measures and analysis will be employed to objectively monitor each Manager's compliance with investment policies and guidelines.
5. An understanding of the strategy being used by each Manager to carry out the current Investment Policy; and
6. Opportunities available within current and prospective asset categories.

The Retirement Plan Committee requests that all documents, exhibits, written materials, etc. to be used during the meetings be submitted in advance.

Individual Investment Manager Objectives

On a quarterly basis, the performance of each of the investment managers will be compared to a relevant benchmark index and to a relevant universe of investment management firms. The ongoing review and evaluation of investment manager results will be the responsibility of the Retirement Plan Committee, with the assistance of the Consultant.

The primary emphasis of the review of each investment manager will be placed on relative rates of return and risk as compared against relevant benchmarks, peers and expectations for each specific manager.

Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should exceed the total return of the relevant index.
- The total return of each portfolio should rank median or higher when compared to the relevant peer group.

In addition to relative rates of return each portfolio's performance will be evaluated based on its relative risk profile as measured by its standard deviation and other benchmark relative statistics; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Passive portfolio allocations are expected to approximate the risk and return profile of the appropriate benchmark.

Rebalancing Policy – Overall Fund Allocation

The system of asset allocation rebalancing to be utilized involves a target asset mix around which variance is allowed within prescribed limits. Rebalancing will be addressed when a limit is reached or exceeded. In addition to monitoring target and actual allocations quarterly, the Retirement Plan Committee will formally review the policy and actual allocations in light of anticipated cash flow.

Review of Investment Management

Manager(s) are responsible for frequent and open communication (in writing) with Management and the Consultant on all significant matters pertaining to Investment Policy and the management of the Plan's assets, including, but not limited to:

1. A quarterly report of major changes in each Manager's investment outlook, investment strategy and portfolio structure.
2. Any significant changes in ownership, organizational structure, financial conditions, or senior personnel staffing of each Manager's organization.
3. Any investment guidelines which inhibit the fulfillment of a Manager's fiduciary duties, inappropriately restrict performance, or prevent the manager from meeting their performance standards.

Proxy Voting

The Trustees confer the right to vote proxies to the Manager(s), unless the Manager(s) are otherwise notified by the Retirement Plan Committee in writing. It is expected that Manager(s) will vote for the sole benefit of the Plan participants and beneficiaries, considering those factors that may affect the value of the Plan's investments and not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives.

A summary of votes cast shall be submitted to the Retirement Plan Committee on an annual basis. This summary must identify the company, number of shares held, subject proxy issues, actual vote (whether for or against the Retirement Plan Committee's recommendation), and justification.

Directed Brokerage

With regard to directed-brokerage, the Trustees do not require the Manager(s) to trade securities through an individual or set of broker-dealers. The Trustees wish to give the Manager(s) full discretion over their choice of broker-dealers, so long as the Plan's total cost or proceeds of transactions are the most favorable under the circumstances.

Tenure

While the relationship with Manager(s) is expected to be ongoing, the Retirement Plan Committee reserves the right to terminate their relationship with any retained Manager at any time they deem appropriate.

In General Managers are fiduciaries with discretion to implement the guidelines within the direction provided by this Statement. All Managers are expected to be familiar with and follow the investment guidelines established under Michigan PA Act 314 with amendments.

Managers should present (and obtain approval on) material changes in their investment style, philosophy or process to the Retirement Plan Committee before implementing any changes on behalf of the Plan.

Managers (except commingled funds) are prohibited from using warrants, options, futures, collectibles, leverage, mutual funds (money market funds exempted), LLCs, ETFs, unit investment trusts, margin purchases or short sales, securities of Plan service providers (custodial bank notwithstanding), and loaning or pledging securities (certain index funds exempted). While commingled funds are exempt from the prohibited securities noted above, they are expected to be managed within the guidelines set forth for each fund. Commingled fund managers are required to comply with the appropriate performance standards and reporting requirements contained in this document.

If a Manager would like to purchase a security that falls outside of this Plan's investment guidelines (commingled funds exempted), or is in doubt as to the goal and intent of these guidelines, they should submit a written request for clarification to the Retirement Plan Committee prior to purchase. Any security not specifically defined or permitted within is prohibited for investment on behalf of this Plan.

Cash Equivalents The cash equivalents Manager may invest in any institutional money market fund ("Fund") that follows the following objectives and policies:

1. The Fund seeks to provide current income while maintaining liquidity and a stable share price of $1.

2. The Fund invests primarily in high-quality, short-term money market instruments, including certificates of deposit, Bankers Acceptances, commercial paper (except ABS commercial paper), and other money market securities.
3. To be considered high-quality, a security generally must be rated in one of the two highest credit-quality categories for short-term securities by at least two nationally recognized rating services (or by one, if only one rating service has rated the security).
4. If unrated, the security rating must be determined by the manager, subject to the limitations in item 3.
5. The Fund maintains a dollar-weighted average maturity of 90 days or less.

Total Plan Performance

~~The Plan's investment objectives are 1) to equal or exceed a 7.5% annualized return over five-year rolling periods, 2) to equal or exceed the return of the Policy Index (a.k.a. the Plan's performance standard) over five-year rolling periods, and 3) to equal or exceed the return of the median institutional fund with a similar allocation/risk exposure (a.k.a. the Plan's performance universe) over one-year rolling periods.~~

The primary investment objective is to meet the long-term financial goals of the Lansing Board of Water and Light Plan. The Plan's asset allocation will be used as the primary tool to achieve this goal.

The Plan is expected to meet or exceed the following objectives over a full market cycle (usually three to five years):

1) Earn a rate of return after all expenses that equals or exceeds the current actuarial assumed rate of return of 7.5%

2) The Plan's total return should exceed the total return of the Policy index comprised of the following: 50% in U.S. equities, 10% in non-U.S. equities and 40% in Global Fixed Income.

~~The Policy Index is a hypothetical fund invested 40% in U.S. equities, 10% in non-U.S. equities, 40% in Global Fixed Income, and 10% in commercial real estate (the U.S. Equities and the Global Fixed Income allocations will be reduced by 5% each after the Alternative Investments allocation is completed).~~

3) The Plan's total return should rank at median or above when compared to a universe of other portfolios with a similar equity allocation.

4) In addition to relative rates of return the Plan's performance will be evaluated based on its relative risk profile as measured by its standard deviation, beta, correlation to the Policy Index, risk adjusted returns as measured by the Plan's Sharpe ratio and performance in up and down markets.

<u>Conclusion</u>

It is in the intent of this Statement to state an attitude and/or philosophy which will guide Managers toward the performance desired. It is further intended that these objectives be sufficiently specific, but also sufficiently flexible.

It is the opinion of the Commissioners that these limitations and guidelines will not prevent a Manager from achieving the objectives set forth.

Glossary of Investment Terms

Alternative Investments - These investments are typically made through the purchase of limited partner units in a private limited partnership. Alternative investments include hedge funds, managed futures and commodities, private equity, real assets and other.

Asset Allocation - A process used to determine the optimal allocation of a fund's portfolio among broad asset classes.

Benchmark Index - An index against which the investment performance of a Manager can be compared for the purpose of determining the value added by the Manager. A benchmark portfolio must be of the same style as the Manager, and in particular, similar in terms of risk.

Best Execution - This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the fair market price which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no opportunity cost, for example when there is no increase in the price of a security shortly after it is sold.

Fiduciary - Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person.

Funding Risk - The risk that anticipated contributions to the fund would not be made.

Liquidity - In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Nominal Return - The nominal return on an asset is the rate of return un-adjusted for any change in the price level. The nominal return is contrasted with the real return that is adjusted for changes in the price level.

Standard Deviation - A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically are. The wider the range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns are normally distributed (i.e. has a bell shaped curve distribution) then approximately two-thirds of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation – The strategic mix of assets designed to accomplish a long-term goal such as funding pension benefits. Generally, policy targets are set for the strategic asset classes with allowable ranges around those targets. The allowable ranges are established to allow flexibility in the management of the investment portfolio.

Systematic Risk - The part of a security's total risk that is related to movements in the market and therefore cannot be diversified away.

Tactical Asset Allocation – The tactical mix of assets is short-term in nature with a goal of maximizing returns. This strategy is used to take advantage of current market conditions that may be more favorable for one asset class over another.

Time-weighted Return - A method of measuring the performance of a portfolio over a particular period of time. It is the cumulative compounded rate of return of the portfolio, calculated on each date that cash flow moves into or out of the portfolio.

Universe - A group of Managers/Funds chosen to have an investment style similar to the Manager/Fund and used for comparison purposes.

LANSING BOARD OF WATER & LIGHT DEFINED BENEFIT PLAN FOR EMPLOYEES' PENSIONS

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Effective July 25, 2017, except as
otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Table of Contents

Section Page

Introduction

The Lansing Board of Water and Light ("**BWL**") is a municipally owned utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan. The Plan receives contributions from the Lansing Board of Water and Light. The Plan pays retirement benefits provided for in the Plan. Plan assets are invested in various types of securities.

This Statement of Investment Policy ("**Statement**") is issued by the Commissioners of the Lansing Board of Water & Light (the "**Commissioners**") for the Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions ("**Plan**"). The purpose of this Statement is to (i) identify and present a set of investment objectives, an asset allocation policy, investment performance standards and procedures for managing the Plan's assets; and (ii) clarify the delegation of certain investment-related duties to the Retirement Plan Committee. This document is intended to be consistent with the provisions of Michigan Public Act 314 of 1965 ("**Act 314**"), as amended.

Updates to Statement

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with the BWL's investment philosophy. Any revisions or updates made to the Statement shall be communicated to the Trustees from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

Trustees

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water & Light. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee, effective as of the date on which this Statement is acknowledged by the Trustees by signature of an authorized representative of the Trustees. As of that date, all provisions in this Statement relating to the Retirement Plan Committee shall become operative.

Responsibility for selecting and providing direction to Investment Managers, Investment Consultants, custodians, and other administrators required for the management of the Plan's assets and for evaluating overall investment results has been delegated to the Retirement Plan Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees, in evaluating the Retirement Plan Committee's actions, shall act in accordance with the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees in writing.

Purpose of the Plan

The Plan was established for the purpose of providing retirement benefits to eligible employees and their beneficiaries. The Plan was closed to new employees hired after

December 31, 1996. The Plan is a governmental defined benefit pension plan which provides retirement, early retirement, disability, termination, and death benefits based upon a formula that includes final average compensation, years of credited service, and a pension benefit percentage. An investment portfolio is maintained to invest employer contributions and to reinvest income.

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The Commissioners, Trustees and the Retirement Plan Committee recognize their respective fiduciary duties to invest the Plan's assets in formal compliance with the Prudent Man Rule. The Trustees interpret this to mean that, in addition to the specific guidelines and restrictions set forth in this document, the assets of the Plan shall be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. Further, the Trustees recognize that, commensurate with its overall objective of maximizing long-range returns while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity for adherence to proper diversification, the Trustees and the Retirement Plan Committee rely upon appropriate professional advice.

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

More specifically, the Retirement Plan Committee's responsibilities include:

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4. Conduct interviews.
5. Check references.
6. Make reasoned decisions based on all information, including:
   a) Philosophy/Goals (i.e., Mission Statement)
   b) Ownership/Management/Organizational Structure/Turnover
   c) Operational History/Growth Plan
   d) Infrastructure: Resources/Tools-of-the-Trade
   e) Financial Condition
   f) Educational Background/Industry Experience
   g) Professional Qualifications
   h) Risk Controls/ Insurance
   I) Criminal, Civil, Regulatory History
   j) Fees
   k) Liquidity
7. Document the decision process.
8. Verify compliance with federal and state laws; specifically, Act 314, and Investment Guidelines.
9. Establish standards of conduct, terms and conditions of relationship (Written Contract/Agreement).

Investment Consultant

In carrying out its delegated responsibilities, the Retirement Plan Committee considers the services of a Consultant as appropriate to assist in the placement of investment funds. The primary role of the Consultant is to provide independent, objective, third-party advice and counsel that will enable the Retirement Plan Committee to make well-informed and timely decisions regarding the investment of the Plan's assets.

The Consultant's role is that of an advisor to the Plan. The Consultant acknowledges its responsibilities as a fiduciary under Act 314. The Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act.

Investment advice concerning the investment management of Plan assets will be offered by the Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. In specific terms, the primary responsibilities of the Consultant are as follows:

1. Measure and evaluate investment performance each calendar quarter.
2. Evaluate the Plan's tolerance for risk.

3. Advise regarding appropriate investment objectives and goals based on the Plan's needs and risk tolerance.
4. Determine what degree of potential market volatility should be factored into the investment approach.
5. Based on all of the above, advise regarding optimal allocation of assets.

<u>Providing a Range of Capabilities</u>
The Consultant is a third party retained by the Retirement Plan Committee to assist in several key areas of the management of financial assets.

The Consultant may be asked to:
1. Gather and evaluate statistical information on the financial assets, investment needs, and risk parameters.
2. Analyze and understand the implications of historic capital market behavior, particularly with regard to the trade-off between total rate of return and investment risk.
3. Maintain data on the universe of available professional investment managers, and categorize (as to investment style and discipline) and evaluate the qualifications of the individual management firms.
4. Provide periodic asset allocation studies and updates.
5. Conduct periodic trustee educational workshops.
6. Provide information with respect to alternate investments.
7. Monitor the investment of the Plan's assets for compliance with Act 314.
8. Analyze and evaluate the Plan's investment performance, and the performance of its investment managers, both past and ongoing.
9. Make specific and timely recommendations for the consideration of the Management during each phase of the investment management process.
10. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.

<u>Making Recommendations</u>
Investment Policy - The Consultant may be asked to recommend an appropriate investment policy that will meet the Plan's needs. This includes recommending investment objectives and guidelines that adhere to the goals and tolerance for risk. The Consultant may be asked to provide an appropriate model of asset allocation composed of equity, fixed-income, money market instruments or alternative investments designed to meet the established objectives.

Manager Selection - The Consultant may be asked to recommend the best qualified and most appropriate Manager(s) candidates for implementing the established investment policy. The Consultant shall be capable of utilizing a well-established system to select suitable Manager(s) candidates from both a local and national investment manager database.

Manager Performance Review and Evaluation

The Consultant shall provide the Retirement Plan Committee with performance reports and ongoing quality control to assure that the standards and investment objectives are maintained. Performance reports generated by the Consultant shall be compiled at least quarterly and communicated to the Retirement Plan Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Retirement Plan Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a Manager(s) for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant qualitative changes to a Manager(s) organization.

Manager(s) shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

<u>Investment Manager(s)</u>

Each Manager acknowledges its responsibility as an investment fiduciary under Act 314. Each Manager acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. Each Manager will have full discretion to make all investment decisions for the assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

Adherence to Policy Guidelines and Objectives

The assets of the Plan are to be managed in accordance with the policy guidelines and objectives expressed herein as well as any additional guidelines provided separately. Assets shall be invested in strict compliance with Act 314. Each Manager shall manage its individual portfolio in compliance with Act 314.

Discretionary Authority

Each Manager is expected to exercise complete investment discretion. Such discretion includes decisions to buy, hold and sell equities or fixed income securities (including cash equivalents) in amounts and proportions reflective of the Manager's current investment strategy and compatible with the investment guidelines.

Each Manager is expected, within the limitation of the account size, to diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to so diversify. The investment manager shall invest the assets of the Plan with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims. The investment manager will provide the Retirement Plan Committee with suggested strategy which might be changed or adopted to better suit the investment guidelines adopted by the Retirement Plan Committee.

Communications
Each Manager is responsible for communicating with the Retirement Plan Committee regarding all significant matters pertaining to the investment of the Plan's assets. The Retirement Plan Committee shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the Plan's assets. If requested, Manager(s) will meet with the Retirement Plan Committee on a quarterly basis to review the portfolio and the investment outlook.

Reporting
Each Manager is expected to provide:

1. INITIALLY, a written statement (per management agreement) acknowledging their acceptance of the guidelines and performance standards herein stated.
2. AT LEAST QUARTERLY, a portfolio composition report to the Retirement Plan Committee of the funds under their management. The report shall contain as a minimum the following data:
   a. Investment Review
   i. Account characteristics;
   ii. Investment summary to include asset description, cost, date, unit value, market value, percent of market, current yield, unrealized gains/losses, and estimated annual income;
   iii. Maturity schedule to include year due and percent of total; and
   b. Summary and statement of assets under management.
3. ANNUALLY, and thereafter at the request of the Retirement Plan Committee, participation in a review meeting, the agenda to include, but not restricted to -
   a. A review and re-appraisal of the herein contained Statement;
   b. A brief review of the recent capital market environment to include discussion of any event particularly pertinent to the management of this portfolio;
   c. A commentary on investment results in light of the appropriate standards of performance as stated herein;
   d. A synopsis of key investment decisions made by the Manager, the underlying rationale, and how those decisions could impact future results;
   e. Recommendations as to changes in goals or standards, based upon material and sustained changes in the capital markets;
4. UPON WRITTEN OR ORAL REQUEST -
   a. Copies of all documentation in support of any investment activity;
   b. A summary of receipts and disbursements;
   c. A listing of assets acquired and disposed of;
   d. Evidence of suitable insurance coverage of the Manager's fiduciary responsibilities.

5. IMMEDIATE NOTIFICATION -
   a. Notice of material changes in the Manager's outlook, policy, and tactics
   b. Notice of material changes in ownership, organizational structure, financial condition, senior staffing and management of the Manager's organization.

Each manager's investment guidelines and performance objectives are made a part of their investment management agreement. Compliance with these guidelines and objectives is evaluated during the quarterly investment performance evaluation process.

Custodian

The primary responsibilities of the custodian ("Custodian") are to:

1. Provide adequate safekeeping services.
2. Settle securities transactions on time.
3. Collect trust fund income when due.
4. Provide adequate accounting services.
5. Prepare useful, accurate, and timely investment reports.
6. Provide adequate cash-management services.
7. Provide adequate administrative support.
8. Develop and maintain adequate data processing capabilities.
9. Handle proxy administration promptly and accurately.
10. Complete and file timely proof of claims for settlements of security class action suits and monitor the processing to ensure claims are received.

Plan Investment Policy

The Plan is maintained to provide retirement benefits for the participants and their beneficiaries. The Plan is established in accordance with the laws of the State of Michigan whereby it operates and is controlled, as to its investments, by PA 314.

The Trustees (or their delegate) are authorized and permitted by the Plan Document and under Michigan law to engage the services of a Manager(s), Consultant and Custodian and to set the direction for the investments.

The Trustees require that the Manager(s), Consultant and Custodian comply with all applicable laws, rules and regulations. Manager(s) will be given full discretion in managing the funds within this Statement.

Plan Investment Objectives

The Trustees' attitudes regarding Plan assets combine both preservation of capital and moderate risk-taking. The Trustees recognize 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 Plan.

The policies and restrictions contained in this Statement should not impede the Manager to attain the overall Plan objectives, nor should they exclude the Manager from appropriate investment opportunities.

The Plan's overall investment objective is to earn an average, annual return of 7.5% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

The Plan's objective is 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 risk (volatility, or 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.

Asset Allocation Policy

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 the expected long-term returns, individual reward/risk characteristics, and correlation with other asset classes, manager roles, and fulfillment of the Plan's long-term financial needs. Conformance with PA 314 of 1965 and amendments thereof is also considered.

The Commissioners 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 Commissioners selected the target allocation for each asset class based on the Plan's current financial condition, expected future contributions, withdrawals, plan expenses and current investment opportunities, notwithstanding short-term performance. The Commissioners intend to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives, and asset class performance.

Asset Allocation Policy Index

Asset Class	Manager Role	Allocation Range	Target Allocation
Total Equity	Active/Passive	40 to 70%	**55%**
US Large Cap Equity	Active/Passive	20 to 30%	25%
US SMID Cap Equity	Active	5 to 15%	10%
Non-U.S. Equities	Active, Broad or Focused	15 to 25%	20%
Total Fixed Income	Active/Passive Core, Active Opportunistic, Intermediate Diversified	20 to 50%	**40%**
Core Fixed Income	Active/Passive Core, Intermediate Diversified	10 to 30%	20%
Multi-Sector Fixed Income	Active Fixed Income	5 to 15%	10%
Liquid Absolute Return Fixed Income	Active Fixed Income	5 to 15%	10%
Commercial Real Estate	Core, value-added, opportunistic, public or private	0 to 10%	**5%**
Cash Equivalents	Active, money market fund	0 to 5%	0%
	Total Fund		**100.0%**

The Trustees acknowledge that alternative asset classes are available and intend to periodically evaluate the merits of using different asset classes. The Trustees also recognize the benefits of diversifying manager roles within a given asset class and intend to periodically evaluate this decision as well as the active versus passive management decision.

In order to preserve capital gains and protect principal during periods of market duress, a short-term U.S. government and/or high-quality credit securities fund may be used. Given the infrequent short-term use and specialized purpose of this fund, it is not included in the Policy Index.

Administrative and Investment Review Procedures

Review of Policies
All investment policies and investment management guidelines will be reviewed annually by the Trustees, or whenever circumstances change to the extent that the policies may be ineffective or inappropriate.

General Review
Annually, all those responsible for investment of the Plan's assets shall submit a report or meet with the Retirement Plan Committee to review their activities for the current year and discuss proposed changes that are anticipated.

Review of Investment Performance
The Retirement Plan Committee will monitor the investment performance of each manager and the overall deployment of the Plan's assets. Monitoring will include periodic meetings with the Manager(s), and a quarterly performance evaluation performed by the Consultant.

Each performance evaluation will include:
1. The present and prospective economic climate;
2. Current period and historical, time-weighted rates of return for the overall Plan, including an evaluation against the previously specified performance standards;
3. Current period and historical, time-weighted rates of return for each Manager, including an evaluation against the previously specified performance standards;
4. Additional quantitative measures and analysis will be employed to objectively monitor each Manager's compliance with investment policies and guidelines.
5. An understanding of the strategy being used by each Manager to carry out the current Investment Policy; and
6. Opportunities available within current and prospective asset categories.

The Retirement Plan Committee requests that all documents, exhibits, written materials, etc. to be used during the meetings be submitted in advance.

Individual Investment Manager Objectives

On a quarterly basis, the performance of each of the investment managers will be compared to a relevant benchmark index and to a relevant universe of investment management firms. The ongoing review and evaluation of investment manager results will be the responsibility of the Retirement Plan Committee, with the assistance of the Consultant.

The primary emphasis of the review of each investment manager will be placed on relative rates of return and risk as compared against relevant benchmarks, peers and expectations for each specific manager.

Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should exceed the total return of the relevant index.

- The total return of each portfolio should rank median or higher when compared to the relevant peer group.

In addition to relative rates of return each portfolio's performance will be evaluated based on its relative risk profile as measured by its standard deviation and other benchmark relative statistics; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Passive portfolio allocations are expected to approximate the risk and return profile of the appropriate benchmark.

Rebalancing Policy – Overall Fund Allocation

The system of asset allocation rebalancing to be utilized involves a target asset mix around which variance is allowed within prescribed limits. Rebalancing will be addressed when a limit is reached or exceeded. In addition to monitoring target and actual allocations quarterly, the Retirement Plan Committee will formally review the policy and actual allocations in light of anticipated cash flow.

Review of Investment Management

Manager(s) are responsible for frequent and open communication (in writing) with Management and the Consultant on all significant matters pertaining to Investment Policy and the management of the Plan's assets, including, but not limited to:

1. A quarterly report of major changes in each Manager's investment outlook, investment strategy and portfolio structure.
2. Any significant changes in ownership, organizational structure, financial conditions, or senior personnel staffing of each Manager's organization.
3. Any investment guidelines which inhibit the fulfillment of a Manager's fiduciary duties, inappropriately restrict performance, or prevent the manager from meeting their performance standards.

Proxy Voting

The Trustees confer the right to vote proxies to the Manager(s), unless the Manager(s) are otherwise notified by the Retirement Plan Committee in writing. It is expected that Manager(s) will vote for the sole benefit of the Plan participants and beneficiaries, considering those factors that may affect the value of the Plan's investments and not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives.

A summary of votes cast shall be submitted to the Retirement Plan Committee on an annual basis. This summary must identify the company, number of shares held, subject proxy issues, actual vote (whether for or against the Retirement Plan Committee's recommendation), and justification.

Directed Brokerage

With regard to directed-brokerage, the Trustees do not require the Manager(s) to trade securities through an individual or set of broker-dealers. The Trustees wish to give the Manager(s) full discretion over their choice of broker-dealers, so long as the Plan's total cost or proceeds of transactions are the most favorable under the circumstances.

Tenure

While the relationship with Manager(s) is expected to be ongoing, the Retirement Plan Committee reserves the right to terminate their relationship with any retained Manager at any time they deem appropriate.

In General Managers are fiduciaries with discretion to implement the guidelines within the direction provided by this Statement. All Managers are expected to be familiar with and follow the investment guidelines established under Michigan PA Act 314 with amendments.

Managers should present (and obtain approval on) material changes in their investment style, philosophy or process to the Retirement Plan Committee before implementing any changes on behalf of the Plan.

Managers (except commingled funds) are prohibited from using warrants, options, futures, collectibles, leverage, mutual funds (money market funds exempted), LLCs, ETFs, unit investment trusts, margin purchases or short sales, securities of Plan service providers (custodial bank notwithstanding), and loaning or pledging securities (certain index funds exempted). While commingled funds are exempt from the prohibited securities noted above, they are expected to be managed within the guidelines set forth for each fund. Commingled fund managers are required to comply with the appropriate performance standards and reporting requirements contained in this document.

If a Manager would like to purchase a security that falls outside of this Plan's investment guidelines (commingled funds exempted), or is in doubt as to the goal and intent of these guidelines, they should submit a written request for clarification to the Retirement Plan Committee prior to purchase. Any security not specifically defined or permitted within is prohibited for investment on behalf of this Plan.

Cash Equivalents The cash equivalents Manager may invest in any institutional money market fund ("Fund") that follows the following objectives and policies:

1. The Fund seeks to provide current income while maintaining liquidity and a stable share price of $1.

2. The Fund invests primarily in high-quality, short-term money market instruments, including certificates of deposit, Bankers Acceptances, commercial paper (except ABS commercial paper), and other money market securities.
3. To be considered high-quality, a security generally must be rated in one of the two highest credit-quality categories for short-term securities by at least two nationally recognized rating services (or by one, if only one rating service has rated the security).
4. If unrated, the security rating must be determined by the manager, subject to the limitations in item 3.
5. The Fund maintains a dollar-weighted average maturity of 90 days or less.

Total Plan Performance

The primary investment objective is to meet the long-term financial goals of the Lansing Board of Water and Light Plan. The Plan's asset allocation will be used as the primary tool to achieve this goal.

The Plan is expected to meet or exceed the following objectives over a full market cycle (usually three to five years):

1) Earn a rate of return after all expenses that equals or exceeds the current actuarial assumed rate of return of 7.5%

2) The Plan's total return should exceed the total return of the Policy index comprised of the following: 50% in U.S. equities, 10% in non-U.S. equities and 40% in Global Fixed Income.

3) The Plan's total return should rank at median or above when compared to a universe of other portfolios with a similar equity allocation.

4) In addition to relative rates of return the Plan's performance will be evaluated based on its relative risk profile as measured by its standard deviation, beta, correlation to the Policy Index, risk adjusted returns as measured by the Plan's Sharpe ratio and performance in up and down markets.

<u>Conclusion</u>

It is in the intent of this Statement to state an attitude and/or philosophy which will guide Managers toward the performance desired. It is further intended that these objectives be sufficiently specific, but also sufficiently flexible.

It is the opinion of the Commissioners that these limitations and guidelines will not prevent a Manager from achieving the objectives set forth.

Glossary of Investment Terms

Alternative Investments - These investments are typically made through the purchase of limited partner units in a private limited partnership. Alternative investments include hedge funds, managed futures and commodities, private equity, real assets and other.

Asset Allocation - A process used to determine the optimal allocation of a fund's portfolio among broad asset classes.

Benchmark Index - An index against which the investment performance of a Manager can be compared for the purpose of determining the value added by the Manager. A benchmark portfolio must be of the same style as the Manager, and in particular, similar in terms of risk.

Best Execution - This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the fair market price which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no opportunity cost, for example when there is no increase in the price of a security shortly after it is sold.

Fiduciary - Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person.

Funding Risk - The risk that anticipated contributions to the fund would not be made.

Liquidity - In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Nominal Return - The nominal return on an asset is the rate of return un-adjusted for any change in the price level. The nominal return is contrasted with the real return that is adjusted for changes in the price level.

Standard Deviation - A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically are. The wider the range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns are normally distributed (i.e. has a bell shaped curve distribution) then approximately two-thirds of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation – The strategic mix of assets designed to accomplish a long-term goal such as funding pension benefits. Generally, policy targets are set for the strategic asset classes with allowable ranges around those targets. The allowable ranges are established to allow flexibility in the management of the investment portfolio.

Systematic Risk - The part of a security's total risk that is related to movements in the market and therefore cannot be diversified away.

Tactical Asset Allocation – The tactical mix of assets is short-term in nature with a goal of maximizing returns. This strategy is used to take advantage of current market conditions that may be more favorable for one asset class over another.

Time-weighted Return - A method of measuring the performance of a portfolio over a particular period of time. It is the cumulative compounded rate of return of the portfolio, calculated on each date that cash flow moves into or out of the portfolio.

Universe - A group of Managers/Funds chosen to have an investment style similar to the Manager/Fund and used for comparison purposes.

POST-RETIREMENT BENEFIT PLAN
FOR ELIGIBLE EMPLOYEES OF
LANSING BOARD OF WATER & LIGHT

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Effective ~~September 27, 2016~~July 25, 2017, except as otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Table of Contents

Introduction

The Lansing Board of Water and Light ("**BWL**") is a municipally owned utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan. The Plan receives contributions from the Lansing Board of Water and Light. The Plan pays retirement benefits provided for in the Plan. Plan assets are invested in various types of securities.

This Statement of Investment Policy ("**Statement**") is issued by the Commissioners of the Lansing Board of Water & Light (the "**Commissioners**") for~~Trustees of~~ the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light ("**Plan**"). The purpose of this Statement is to identify and present a set of investment objectives, an asset allocation policy, investment performance standards and procedures for managing the Plan's assets.

Updates to Statement

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with the BWL's investment philosophy. Any revisions or updates made to the Statement shall be communicated to the Trustees from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

Trustees

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water & Light. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee, effective as of the date on which this Statement is acknowledged by the Trustees by signature of an authorized representative of the Trustees. As of that date, all provisions in this Statement relating to the Retirement Plan Committee shall become operative.

Responsibility for selecting and providing direction to Investment Managers, Investment Consultants, custodians, and other administrators required for the management of the Plan's assets and for evaluating overall investment results has been delegated to the Retirement Plan Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees, in evaluating the Retirement Plan Committee's actions, shall act in accordance with the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees in writing.

Purpose of the Plan

The Plan was established for the purpose of providing post-retirement medical benefits to eligible employees and their beneficiaries. The Plan is a governmental retiree medical plan which provides medical, prescription drug, dental and life insurance benefits upon a participant's attainment of normal, early or disability retirement status. An investment portfolio is maintained to invest employer contributions and to reinvest income.

Investment Philosophy

The Commissioners, Trustees and the Retirement Plan Committee recognize their respective fiduciary duties to invest the Plan's assets in formal compliance with the Prudent Man Rule. The Trustees interpret this to mean that, in addition to the specific guidelines and restrictions set forth in this document, the assets of the Plan shall be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. Further, the Trustees recognize that, commensurate with its overall objective of maximizing long-range returns while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity for adherence to proper diversification, the Trustees and the Retirement Plan Committee rely upon appropriate professional advice.

Delegation of Responsibilities

Retirement Plan Committee

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

More specifically, the Retirement Plan Committee's responsibilities include:

1. Complying with the provisions of pertinent federal, state, and local laws and regulations relating to the investment of Plan assets.
2. Evaluating and appointing a qualified manager(s) and consultant(s) to invest and manage the Plan's assets.
3. Communicating the investment goals, objectives, and standards to the investment managers including any material changes that may subsequently occur.
4. Determining, with the advice of the Investment Consultant ("Consultant"), how Plan assets should be allocated among various asset classes.
5. Review and evaluate the results of the Investment Manager(s) ("Manager(s)") in context with established standards of performance.
6. Taking whatever corrective action is deemed prudent and appropriate when an investment manager fails to perform as mutually expected.
7. The Retirement Plan Committee will notify the Manager(s) of:
   a) Significant changes in the Plan cash flow and/or cash flow needs; and
   b) Any matter which bear upon the proper investment management of the Plan's assets, including pertinent financial, legal, and actuarial information.
9. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.
10. Review any program that may mitigate or offset costs.

The Retirement Plan Committee shall give consideration to and have an understanding of the following prior to retaining professionals:

1. Establishing standards/requirements/appropriateness of services.
2. Identification of appropriate candidates for the position.
3. Solicitation of bids and proposals.
4. Conduct interviews.
5. Check references.
6. Make reasoned decisions based on all information, including:
   a) Philosophy/Goals (i.e., Mission Statement)
   b) Ownership/Management/Organizational Structure/Turnover
   c) Operational History/Growth Plan
   d) Infrastructure: Resources/Tools-of-the-Trade
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In carrying out its delegated responsibilities, the Retirement Plan Committee considers the services of a Consultant as appropriate to assist in the placement of investment funds. The primary role of the Consultant is to provide independent, objective, third-party advice and counsel that will enable the Retirement Plan Committee to make well-informed and timely decisions regarding the investment of the Plan's assets.

The Consultant's role is that of an advisor to the Plan. The Consultant acknowledges its responsibilities as a fiduciary. The Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act.

Investment advice concerning the investment management of Plan assets will be offered by the Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. In specific terms, the primary responsibilities of the Consultant are as follows:

1. Measure and evaluate investment performance each calendar quarter.
2. Evaluate the Plan's tolerance for risk.
3. Advise regarding appropriate investment objectives and goals based on the Plan's needs and risk tolerance.

4. Determine what degree of potential market volatility should be factored into the investment approach.
5. Based on all of the above, advise regarding optimal allocation of assets.

<u>Providing a Range of Capabilities</u>
The Consultant is a third party retained by the Retirement Plan Committee to assist in several key areas of the management of financial assets.

The Consultant may be asked to:
1. Gather and evaluate statistical information on the financial assets, investment needs, and risk parameters.
2. Analyze and understand the implications of historic capital market behavior, particularly with regard to the trade-off between total rate of return and investment risk.
3. Maintain data on the universe of available professional investment managers, and categorize (as to investment style and discipline) and evaluate the qualifications of the individual management firms.
4. Provide periodic asset allocation studies and updates.
5. Conduct periodic trustee educational workshops.
6. Provide information with respect to alternate investments.
7. Monitor the investment of the Plan's assets for compliance with relevant laws and regulations.
8. Analyze and evaluate the Plan's investment performance, and the performance of its investment managers, both past and ongoing.
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Manager Performance Review and Evaluation
The Consultant shall provide the Retirement Plan Committee with performance reports and ongoing quality control to assure that the standards and investment objectives are

maintained. Performance reports generated by the Consultant shall be compiled at least quarterly and communicated to the Retirement Plan Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Retirement Plan Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a Manager(s) for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this Statement of Investment Policy, including communication and reporting requirements.
3. Significant qualitative changes to a Manager(s) organization.

Manager(s) shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Investment Manager(s)

Each Manager acknowledges its responsibility as an investment fiduciary. Each Manager acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act. Each Manager will have full discretion to make all investment decisions for the assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement.

Adherence to Policy Guidelines and Objectives
The assets of the Plan are to be managed in accordance with the policy guidelines and objectives expressed herein as well as any additional guidelines provided separately. Assets shall be invested in strict compliance with relevant laws and regulations. Each Manager shall manage its individual portfolio in compliance with relevant laws and regulations.

Discretionary Authority
Each Manager is expected to exercise complete investment discretion. Such discretion includes decisions to buy, hold and sell equities or fixed income securities (including cash equivalents) in amounts and proportions reflective of the Manager's current investment strategy and compatible with the investment guidelines.

Each Manager is expected, within the limitation of the account size, to diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to so diversify. The investment manager shall invest the assets of the Plan with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims. The investment manager will provide the Retirement Plan Committee with suggested strategy which might be changed or adopted to better suit the investment guidelines adopted by the Retirement Plan Committee.

Communications
Each Manager is responsible for communicating with the Retirement Plan Committee regarding all significant matters pertaining to the investment of the Plan's assets. The Retirement Plan Committee shall be kept apprised of substantive changes in investment strategy, asset mix, portfolio structure, and market value of the Plan's assets. If requested, Manager(s) will meet with the Retirement Plan Committee on a quarterly basis to review the portfolio and the investment outlook.

Reporting
Each Manager is expected to provide:

1. INITIALLY, a written statement (per management agreement) acknowledging their acceptance of the guidelines and performance standards herein stated.
2. AT LEAST QUARTERLY, a portfolio composition report to the Retirement Plan Committee of the funds under their management. The report shall contain as a minimum the following data:
   a. Investment Review
   i. Account characteristics;
   ii. Investment summary to include asset description, cost, date, unit value, market value, percent of market, current yield, unrealized gains/losses, and estimated annual income;
   iii. Maturity schedule to include year due and percent of total; and
   b. Summary and statement of assets under management.
3. ANNUALLY, and thereafter at the request of the Retirement Plan Committee, participation in a review meeting, the agenda to include, but not restricted to -
   a. A review and re-appraisal of the herein contained Statement;
   b. A brief review of the recent capital market environment to include discussion of any event particularly pertinent to the management of this portfolio;
   c. A commentary on investment results in light of the appropriate standards of performance as stated herein;
   d. A synopsis of key investment decisions made by the Manager, the underlying rationale, and how those decisions could impact future results;
   e. Recommendations as to changes in goals or standards, based upon material and sustained changes in the capital markets;
4. UPON WRITTEN OR ORAL REQUEST -
   a. Copies of all documentation in support of any investment activity;
   b. A summary of receipts and disbursements;
   c. A listing of assets acquired and disposed of;
   d. Evidence of suitable insurance coverage of the Manager's fiduciary responsibilities.
5. IMMEDIATE NOTIFICATION -
   a. Notice of material changes in the Manager's outlook, policy, and tactics

b. Notice of material changes in ownership, organizational structure, financial condition, senior staffing and management of the Manager's organization.

Each manager's investment guidelines and performance objectives are made a part of their investment management agreement. Compliance with these guidelines and objectives is evaluated during the quarterly investment performance evaluation process.

Custodian

The primary responsibilities of the custodian ("Custodian") are to:
1. Provide adequate safekeeping services.
2. Settle securities transactions on time.
3. Collect trust fund income when due.
4. Provide adequate accounting services.
5. Prepare useful, accurate, and timely investment reports.
6. Provide adequate cash-management services.
7. Provide adequate administrative support.
8. Develop and maintain adequate data processing capabilities.
9. Handle proxy administration promptly and accurately.
10. Complete and file timely proof of claims for settlements of security class action suits and monitor the processing to ensure claims are received.

Plan Investment Policy

The Plan is maintained to provide retiree medical benefits for the participants and their beneficiaries.

The Trustees (or their delegate) are authorized and permitted by the Plan Document and under Michigan law to engage the services of a Manager(s), Consultant and Custodian and to set the direction for the investments.

The Trustees require that the Manager(s), Consultant and Custodian comply with all applicable laws, rules and regulations. Manager(s) will be given full discretion in managing the funds within this Statement.

Plan Investment Objectives

The Trustees' attitudes regarding Plan assets combine both preservation of capital and moderate risk-taking. The Trustees recognize 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 Plan. The policies and restrictions contained in this Statement should not impede the Manager to attain the overall Plan objectives, nor should they exclude the Manager from appropriate investment opportunities.

The Plan's overall investment objective is to earn an average, annual return of 7.5% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

The Plan's objective is 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 risk (volatility, or 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.

Asset Allocation Policy

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 the expected long-term returns, individual reward/risk characteristics, and correlation with other asset classes, manager roles, and fulfillment of the Plan's long-term financial needs.

The Commissioners 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 Commissioners selected the target allocation for each asset class based on the Plan's current financial condition, expected future contributions, withdrawals, plan expenses and current investment opportunities, notwithstanding short-term performance. The Commissioners intend to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives, and asset class performance.

Asset Allocation Policy Index

Asset Class	**Manager Role**	**Allocation Range**	**Target Allocation**
~~U.S. Equities~~Total Equity	Active/Passive	~~35~~ 45 to 70%	**~~45~~60%**
US Large Cap Equity	Active/Passive	25 to 35%	30%
US SMID Cap Equity	Active	5 to 15%	10%
Non-U.S. Equities	Active, Broad or Focused	15~~0~~ to ~~20~~25%	20%
Total Fixed Income	Active/Passive, Core, Opportunistic	10 to 50%	**25%**
~~Global~~ Core Fixed Income	Active/Passive Core, Intermediate Diversified	10 to ~~50~~35%	~~15~~15%
Multi-Sector Fixed Income	Active Fixed Income	0 to 10%	5%
Liquid Absolute Return Fixed Income	Active Fixed Income	0 to 10%	5%
Commercial Real Estate	Core, value-added, opportunistic, public or private	0 to 20%	**~~20~~15%**
~~Alternative Investments*~~	~~Hedge funds, private equity, private debt, real assets~~	~~0 to 15%~~	~~10%~~
Cash Equivalents	Active, money market fund	0 to 5%	0%
		Total Fund	**100.0%**

~~*Current allocation to Alternative Investments is 0%. The 10% allocation will be invested equally between U.S. Equities and Global Fixed Income (5% each).~~

The Trustees acknowledge that alternative asset classes are available and intend to periodically evaluate the merits of using different asset classes. The Trustees also recognize the benefits of diversifying manager roles within a given asset class and intend to periodically evaluate this decision as well as the active versus passive management decision.

In order to preserve capital gains and protect principal during periods of market duress, a short-term U.S. government and/or high-quality credit securities fund may be used. Given the infrequent short-term use and specialized purpose of this fund, it is not included in the Policy Index.

Administrative and Investment Review Procedures

Review of Policies

All investment policies and investment management guidelines will be reviewed annually by the Trustees, or whenever circumstances change to the extent that the policies may be ineffective or inappropriate.

General Review

Annually, all those responsible for investment of the Plan's assets shall submit a report or meet with the Retirement Plan Committee to review their activities for the current year and discuss proposed changes that are anticipated.

Review of Investment Performance

The Retirement Plan Committee will monitor the investment performance of each manager and the overall deployment of the Plan's assets. Monitoring will include periodic meetings with the Manager(s), and a quarterly performance evaluation performed by the Consultant.

Each performance evaluation will include:

1. The present and prospective economic climate;
2. Current period and historical, time-weighted rates of return for the overall Plan, including an evaluation against the previously specified performance standards;
3. Current period and historical, time-weighted rates of return for each Manager, including an evaluation against the previously specified performance standards;
4. Additional quantitative measures and analysis will be employed to objectively monitor each Manager's compliance with investment policies and guidelines.
5. An understanding of the strategy being used by each Manager to carry out the current Investment Policy; and
6. Opportunities available within current and prospective asset categories.

The Retirement Plan Committee requests that all documents, exhibits, written materials, etc. to be used during the meetings be submitted in advance.

Individual Investment Manager Objectives

On a quarterly basis, the performance of each of the investment managers will be compared to a relevant benchmark index and to a relevant universe of investment management firms. The ongoing review and evaluation of investment manager results will be the responsibility of the Retirement Plan Committee, with the assistance of the Consultant.

The primary emphasis of the review of each investment manager will be placed on relative rates of return and risk as compared against relevant benchmarks, peers and expectations for each specific manager.

Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should exceed the total return of the relevant index.

- The total return of each portfolio should rank median or higher when compared to the relevant peer group.

In addition to relative rates of return each portfolio's performance will be evaluated based on its relative risk profile as measured by its standard deviation and other benchmark relative statistics; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Passive portfolio allocations are expected to approximate the risk and return profile of the appropriate benchmark.

Rebalancing Policy – Overall Fund Allocation

The system of asset allocation rebalancing to be utilized involves a target asset mix around which variance is allowed within prescribed limits. Rebalancing will be addressed when a limit is reached or exceeded. In addition to monitoring target and actual allocations quarterly, the Retirement Plan Committee will formally review the policy and actual allocations in light of anticipated cash flow.

Review of Investment Management

Manager(s) are responsible for frequent and open communication (in writing) with Management and the Consultant on all significant matters pertaining to Investment Policy and the management of the Plan's assets, including, but not limited to:

1. A quarterly report of major changes in each Manager's investment outlook, investment strategy and portfolio structure.
2. Any significant changes in ownership, organizational structure, financial conditions, or senior personnel staffing of each Manager's organization.
3. Any investment guidelines which inhibit the fulfillment of a Manager's fiduciary duties, inappropriately restrict performance, or prevent the manager from meeting their performance standards.

Proxy Voting

The Trustees confer the right to vote proxies to the Manager(s), unless the Manager(s) are otherwise notified by the Retirement Plan Committee in writing. It is expected that Manager(s) will vote for the sole benefit of the Plan participants and beneficiaries, considering those factors that may affect the value of the Plan's investments and not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives.

A summary of votes cast shall be submitted to the Retirement Plan Committee on an annual basis. This summary must identify the company, number of shares held, subject proxy issues, actual vote (whether for or against the Retirement Plan Committee's recommendation), and justification.

Directed Brokerage

With regard to directed-brokerage, the Trustees do not require the Manager(s) to trade securities through an individual or set of broker-dealers. The Trustees wish to give the Manager(s) full discretion over their choice of broker-dealers, so long as the Plan's total cost or proceeds of transactions are the most favorable under the circumstances.

Tenure

While the relationship with Manager(s) is expected to be ongoing, the Retirement Plan Committee reserves the right to terminate their relationship with any retained Manager at any time they deem appropriate.

In General Managers are fiduciaries with discretion to implement the guidelines within the direction provided by this Statement..

Managers should present (and obtain approval on) material changes in their investment style, philosophy or process to the Retirement Plan Committee before implementing any changes on behalf of the Plan.

Managers (except commingled funds) are prohibited from using warrants, options, futures, collectibles, leverage, mutual funds (money market funds exempted), LLCs, ETFs, unit investment trusts, margin purchases or short sales, securities of Plan service providers (custodial bank notwithstanding), and loaning or pledging securities (certain index funds exempted). While commingled funds are exempt from the prohibited securities noted above, they are expected to be managed within the guidelines set forth for each fund. Commingled fund managers are required to comply with the appropriate performance standards and reporting requirements contained in this document.

If a Manager would like to purchase a security that falls outside of this Plan's investment guidelines (commingled funds exempted), or is in doubt as to the goal and intent of these guidelines, they should submit a written request for clarification to the Retirement Plan Committee prior to purchase. Any security not specifically defined or permitted within is prohibited for investment on behalf of this Plan.

Cash Equivalents The cash equivalents Manager may invest in any institutional money market fund ("Fund") that follows the following objectives and policies:

1. The Fund seeks to provide current income while maintaining liquidity and a stable share price of $1.
2. The Fund invests primarily in high-quality, short-term money market instruments, including certificates of deposit, Bankers Acceptances, commercial paper (except ABS commercial paper), and other money market securities.
3. To be considered high-quality, a security generally must be rated in one of the two highest credit-quality categories for short-term securities by at least two

nationally recognized rating services (or by one, if only one rating service has rated the security).

4. If unrated, the security rating must be determined by the manager, subject to the limitations in item 3.
5. The Fund maintains a dollar-weighted average maturity of 90 days or less.

Total Plan Performance

~~The Plan's investment objectives are 1) to equal or exceed a 7.5% annualized return over five-year rolling periods, 2) to equal or exceed the return of the Policy Index (a.k.a. the Plan's performance standard) over five-year rolling periods, and 3) to equal or exceed the return of the median institutional fund with a similar allocation/risk exposure (a.k.a. the Plan's performance universe) over one-year rolling periods.~~

The primary investment objective is to meet the long-term financial goals of the Lansing Board of Water and Light Plan. The Plan's asset allocation will be used as the primary tool to achieve this goal.

The Plan is expected to meet or exceed the following objectives over a full market cycle (usually three to five years):

1) Earn a rate of return after all expenses that equals or exceeds the current actuarial assumed rate of return of 7.5%

2) The Plan's total return should exceed the total return of the Policy index comprised of the following: 50% in U.S. equities, 10% in non-U.S. equities and 40% in Global Fixed Income.

~~The Policy Index is a hypothetical fund invested 40% in U.S. equities, 10% in non-U.S. equities, 40% in Global Fixed Income, and 10% in commercial real estate (the U.S. Equities and the Global Fixed Income allocations will be reduced by 5% each after the Alternative Investments allocation is completed).~~

3) The Plan's total return should rank at median or above when compared to a universe of other portfolios with a similar equity allocation.

4) In addition to relative rates of return the Plan's performance will be evaluated based on its relative risk profile as measured by its standard deviation, beta, correlation to the Policy Index, risk adjusted returns as measured by the Plan's Sharpe ratio and performance in up and down markets.

Conclusion

It is in the intent of this Statement to state an attitude and/or philosophy which will guide Managers toward the performance desired. It is further intended that these objectives be sufficiently specific, but also sufficiently flexible.

It is the opinion of the Commissioners that these limitations and guidelines will not prevent a Manager from achieving the objectives set forth.

Glossary of Investment Terms

Alternative Investments - These investments are typically made through the purchase of limited partner units in a private limited partnership. Alternative investments include hedge funds, managed futures and commodities, private equity, real assets and other.

Asset Allocation - A process used to determine the optimal allocation of a fund's portfolio among broad asset classes.

Benchmark Index - An index against which the investment performance of a Manager can be compared for the purpose of determining the value added by the Manager. A benchmark portfolio must be of the same style as the Manager, and in particular, similar in terms of risk.

Best Execution - This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the fair market price which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no opportunity cost, for example when there is no increase in the price of a security shortly after it is sold.

Fiduciary - Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person.

Funding Risk - The risk that anticipated contributions to the fund would not be made.

Liquidity - In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Nominal Return - The nominal return on an asset is the rate of return un-adjusted for any change in the price level. The nominal return is contrasted with the real return that is adjusted for changes in the price level.

Standard Deviation - A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically are. The wider the range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns are normally distributed (i.e. has a bell shaped curve distribution) then approximately two-thirds of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation – The strategic mix of assets designed to accomplish a long-term goal such as funding medical benefits. Generally, policy targets are set for the strategic asset classes with allowable ranges around those targets. The allowable ranges are established to allow flexibility in the management of the investment portfolio.

Systematic Risk - The part of a security's total risk that is related to movements in the market and therefore cannot be diversified away.

Tactical Asset Allocation – The tactical mix of assets is short-term in nature with a goal of maximizing returns. This strategy is used to take advantage of current market conditions that may be more favorable for one asset class over another.

Time-weighted Return - A method of measuring the performance of a portfolio over a particular period of time. It is the cumulative compounded rate of return of the portfolio, calculated on each date that cash flow moves into or out of the portfolio.

Universe - A group of Managers/Funds chosen to have an investment style similar to the Manager/Fund and used for comparison purposes.

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POST-RETIREMENT BENEFIT PLAN FOR ELIGIBLE EMPLOYEES OF LANSING BOARD OF WATER & LIGHT

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Effective July 25, 2017, except as
otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Table of Contents

Introduction

The Lansing Board of Water and Light ("**BWL**") is a municipally owned utility providing drinking water, electricity, steam and chilled water services to the greater Lansing area in mid-Michigan. The Plan receives contributions from the Lansing Board of Water and Light. The Plan pays retirement benefits provided for in the Plan. Plan assets are invested in various types of securities.

This Statement of Investment Policy ("**Statement**") is issued by the Commissioners of the Lansing Board of Water & Light (the "**Commissioners**") for the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light ("**Plan**"). The purpose of this Statement is to identify and present a set of investment objectives, an asset allocation policy, investment performance standards and procedures for managing the Plan's assets.

Updates to Statement

The Commissioners retain the authority to approve, revise and update this Statement as necessary to ensure that it is consistent with the BWL's investment philosophy. Any revisions or updates made to the Statement shall be communicated to the Trustees from time to time in writing. The Trustees shall formally acknowledge any revisions or updates by communicating the same to the Commissioners in writing. It shall be the duty of the Trustees to act strictly in accordance with the Statement, and any changes therein, as so communicated to and acknowledged by the Trustees.

Trustees

The Trustees of the Plan are the eight appointed voting Commissioners of the Lansing Board of Water & Light. The Trustees have delegated certain responsibilities that are described in this Statement to the Retirement Plan Committee, effective as of the date on which this Statement is acknowledged by the Trustees by signature of an authorized representative of the Trustees. As of that date, all provisions in this Statement relating to the Retirement Plan Committee shall become operative.

Responsibility for selecting and providing direction to Investment Managers, Investment Consultants, custodians, and other administrators required for the management of the Plan's assets and for evaluating overall investment results has been delegated to the Retirement Plan Committee which shall report to the Trustees regarding selections made and investment performance. The Trustees, in evaluating the Retirement Plan Committee's actions, shall act in accordance with the terms of this Statement, as updated from time to time by the Commissioners, and as communicated to the Trustees in writing.

Purpose of the Plan

The Plan was established for the purpose of providing post-retirement medical benefits to eligible employees and their beneficiaries. The Plan is a governmental retiree medical plan which provides medical, prescription drug, dental and life insurance benefits upon a participant's attainment of normal, early or disability retirement status. An investment portfolio is maintained to invest employer contributions and to reinvest income.

Investment Philosophy

The Commissioners, Trustees and the Retirement Plan Committee recognize their respective fiduciary duties to invest the Plan's assets in formal compliance with the Prudent Man Rule. The Trustees interpret this to mean that, in addition to the specific guidelines and restrictions set forth in this document, the assets of the Plan shall be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. Further, the Trustees recognize that, commensurate with its overall objective of maximizing long-range returns while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity for adherence to proper diversification, the Trustees and the Retirement Plan Committee rely upon appropriate professional advice.

Delegation of Responsibilities

Retirement Plan Committee

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

More specifically, the Retirement Plan Committee's responsibilities include:
1. Complying with the provisions of pertinent federal, state, and local laws and regulations relating to the investment of Plan assets.
2. Evaluating and appointing a qualified manager(s) and consultant(s) to invest and manage the Plan's assets.
3. Communicating the investment goals, objectives, and standards to the investment managers including any material changes that may subsequently occur.
4. Determining, with the advice of the Investment Consultant ("Consultant"), how Plan assets should be allocated among various asset classes.
5. Review and evaluate the results of the Investment Manager(s) ("Manager(s)") in context with established standards of performance.
6. Taking whatever corrective action is deemed prudent and appropriate when an investment manager fails to perform as mutually expected.
7. The Retirement Plan Committee will notify the Manager(s) of:
   a) Significant changes in the Plan cash flow and/or cash flow needs; and
   b) Any matter which bear upon the proper investment management of the Plan's assets, including pertinent financial, legal, and actuarial information.
9. Monitor all costs associated with the administration of the Plan's investment to ensure that they are reasonable with market averages.
10. Review any program that may mitigate or offset costs.

The Retirement Plan Committee shall give consideration to and have an understanding of the following prior to retaining professionals:

1. Establishing standards/requirements/appropriateness of services.
2. Identification of appropriate candidates for the position.
3. Solicitation of bids and proposals.
4. Conduct interviews.
5. Check references.
6. Make reasoned decisions based on all information, including:
   a) Philosophy/Goals (i.e., Mission Statement)
   b) Ownership/Management/Organizational Structure/Turnover
   c) Operational History/Growth Plan
   d) Infrastructure: Resources/Tools-of-the-Trade
   e) Financial Condition
   f) Educational Background/Industry Experience
   g) Professional Qualifications
   h) Risk Controls/ Insurance
   I) Criminal, Civil, Regulatory History
   j) Fees
   k) Liquidity
7. Document the decision process.
8. Verify compliance with federal and state laws and Investment Guidelines.
9. Establish standards of conduct, terms and conditions of relationship (Written Contract/Agreement).

<u>Investment Consultant</u>

In carrying out its delegated responsibilities, the Retirement Plan Committee considers the services of a Consultant as appropriate to assist in the placement of investment funds. The primary role of the Consultant is to provide independent, objective, third-party advice and counsel that will enable the Retirement Plan Committee to make well-informed and timely decisions regarding the investment of the Plan's assets.

The Consultant's role is that of an advisor to the Plan. The Consultant acknowledges its responsibilities as a fiduciary. The Consultant acknowledges that it is a registered investment advisor under either the Investment Advisors Act of 1940 or the Michigan Uniform Securities Act.

Investment advice concerning the investment management of Plan assets will be offered by the Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. In specific terms, the primary responsibilities of the Consultant are as follows:

1. Measure and evaluate investment performance each calendar quarter.
2. Evaluate the Plan's tolerance for risk.
3. Advise regarding appropriate investment objectives and goals based on the Plan's needs and risk tolerance.

4. Determine what degree of potential market volatility should be factored into the investment approach.
5. Based on all of the above, advise regarding optimal allocation of assets.

<u>Providing a Range of Capabilities</u>
The Consultant is a third party retained by the Retirement Plan Committee to assist in several key areas of the management of financial assets.

The Consultant may be asked to:
1. Gather and evaluate statistical information on the financial assets, investment needs, and risk parameters.
2. Analyze and understand the implications of historic capital market behavior, particularly with regard to the trade-off between total rate of return and investment risk.
3. Maintain data on the universe of available professional investment managers, and categorize (as to investment style and discipline) and evaluate the qualifications of the individual management firms.
4. Provide periodic asset allocation studies and updates.
5. Conduct periodic trustee educational workshops.
6. Provide information with respect to alternate investments.
7. Monitor the investment of the Plan’s assets for compliance with relevant laws and regulations.
8. Analyze and evaluate the Plan's investment performance, and the performance of its investment managers, both past and ongoing.
9. Make specific and timely recommendations for the consideration of the Management during each phase of the investment management process.
10. Monitor all costs associated with the administration of the Plan’s investment to ensure that they are reasonable with market averages.

<u>Making Recommendations</u>
Investment Policy - The Consultant may be asked to recommend an appropriate investment policy that will meet the Plan's needs. This includes recommending investment objectives and guidelines that adhere to the goals and tolerance for risk. The Consultant may be asked to provide an appropriate model of asset allocation composed of equity, fixed-income, money market instruments or alternative investments designed to meet the established objectives.

Manager Selection - The Consultant may be asked to recommend the best qualified and most appropriate Manager(s) candidates for implementing the established investment policy. The Consultant shall be capable of utilizing a well-established system to select suitable Manager(s) candidates from both a local and national investment manager database.

Manager Performance Review and Evaluation
The Consultant shall provide the Retirement Plan Committee with performance reports and ongoing quality control to assure that the standards and investment objectives are

maintained. Performance reports generated by the Consultant shall be compiled at least quarterly and communicated to the Retirement Plan Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Retirement Plan Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a Manager(s) for any reason including the following:

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Each Manager is expected, within the limitation of the account size, to diversify the portfolio to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to so diversify. The investment manager shall invest the assets of the Plan with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with such aims. The investment manager will provide the Retirement Plan Committee with suggested strategy which might be changed or adopted to better suit the investment guidelines adopted by the Retirement Plan Committee.

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   a. Investment Review
   i. Account characteristics;
   ii. Investment summary to include asset description, cost, date, unit value, market value, percent of market, current yield, unrealized gains/losses, and estimated annual income;
   iii. Maturity schedule to include year due and percent of total; and
   b. Summary and statement of assets under management.
3. ANNUALLY, and thereafter at the request of the Retirement Plan Committee, participation in a review meeting, the agenda to include, but not restricted to -
   a. A review and re-appraisal of the herein contained Statement;
   b. A brief review of the recent capital market environment to include discussion of any event particularly pertinent to the management of this portfolio;
   c. A commentary on investment results in light of the appropriate standards of performance as stated herein;
   d. A synopsis of key investment decisions made by the Manager, the underlying rationale, and how those decisions could impact future results;
   e. Recommendations as to changes in goals or standards, based upon material and sustained changes in the capital markets;
4. UPON WRITTEN OR ORAL REQUEST -
   a. Copies of all documentation in support of any investment activity;
   b. A summary of receipts and disbursements;
   c. A listing of assets acquired and disposed of;
   d. Evidence of suitable insurance coverage of the Manager’s fiduciary responsibilities.
5. IMMEDIATE NOTIFICATION -
   a. Notice of material changes in the Manager’s outlook, policy, and tactics

b. Notice of material changes in ownership, organizational structure, financial condition, senior staffing and management of the Manager's organization.

Each manager's investment guidelines and performance objectives are made a part of their investment management agreement. Compliance with these guidelines and objectives is evaluated during the quarterly investment performance evaluation process.

Custodian

The primary responsibilities of the custodian ("Custodian") are to:
1. Provide adequate safekeeping services.
2. Settle securities transactions on time.
3. Collect trust fund income when due.
4. Provide adequate accounting services.
5. Prepare useful, accurate, and timely investment reports.
6. Provide adequate cash-management services.
7. Provide adequate administrative support.
8. Develop and maintain adequate data processing capabilities.
9. Handle proxy administration promptly and accurately.
10. Complete and file timely proof of claims for settlements of security class action suits and monitor the processing to ensure claims are received.

Plan Investment Policy

The Plan is maintained to provide retiree medical benefits for the participants and their beneficiaries.

The Trustees (or their delegate) are authorized and permitted by the Plan Document and under Michigan law to engage the services of a Manager(s), Consultant and Custodian and to set the direction for the investments.

The Trustees require that the Manager(s), Consultant and Custodian comply with all applicable laws, rules and regulations. Manager(s) will be given full discretion in managing the funds within this Statement.

Plan Investment Objectives

The Trustees' attitudes regarding Plan assets combine both preservation of capital and moderate risk-taking. The Trustees recognize 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 Plan. The policies and restrictions contained in this Statement should not impede the Manager to attain the overall Plan objectives, nor should they exclude the Manager from appropriate investment opportunities.

The Plan's overall investment objective is to earn an average, annual return of 7.5% over five-year rolling periods. Achievement of this objective is likely to result in stable to declining future contribution rates and ensure its ability to pay retirement benefits for all plan participants.

The Plan's objective is 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 risk (volatility, or 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.

Asset Allocation Policy

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 the expected long-term returns, individual reward/risk characteristics, and correlation with other asset classes, manager roles, and fulfillment of the Plan’s long-term financial needs.

The Commissioners 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 Commissioners selected the target allocation for each asset class based on the Plan's current financial condition, expected future contributions, withdrawals, plan expenses and current investment opportunities, notwithstanding short-term performance. The Commissioners intend to review these allocation targets at least annually, focusing on changes in the Plan's financial needs, investment objectives, and asset class performance.

Asset Allocation Policy Index

Asset Class	Manager Role	Allocation Range	Target Allocation
Total Equity	Active/Passive	45 to 70%	**60%**
US Large Cap Equity	Active/Passive	25 to 35%	30%
US SMID Cap Equity	Active	5 to 15%	10%
Non-U.S. Equities	Active, Broad or Focused	15 to 25%	20%
Total Fixed Income	Active/Passive, Core, Opportunistic	10 to 50%	**25%**
Core Fixed Income	Active/Passive Core, Intermediate Diversified	10 to 35%	15%
Multi-Sector Fixed Income	Active Fixed Income	0 to 10%	5%
Liquid Absolute Return Fixed Income	Active Fixed Income	0 to 10%	5%
Commercial Real Estate	Core, value-added, opportunistic, public or private	0 to 20%	**15%**
Cash Equivalents	Active, money market fund	0 to 5%	0%
		Total Fund	**100.0%**

The Trustees acknowledge that alternative asset classes are available and intend to periodically evaluate the merits of using different asset classes. The Trustees also recognize the benefits of diversifying manager roles within a given asset class and intend to periodically evaluate this decision as well as the active versus passive management decision.

In order to preserve capital gains and protect principal during periods of market duress, a short-term U.S. government and/or high-quality credit securities fund may be used. Given the infrequent short-term use and specialized purpose of this fund, it is not included in the Policy Index.

Administrative and Investment Review Procedures

Review of Policies

All investment policies and investment management guidelines will be reviewed annually by the Trustees, or whenever circumstances change to the extent that the policies may be ineffective or inappropriate.

General Review

Annually, all those responsible for investment of the Plan's assets shall submit a report or meet with the Retirement Plan Committee to review their activities for the current year and discuss proposed changes that are anticipated.

Review of Investment Performance

The Retirement Plan Committee will monitor the investment performance of each manager and the overall deployment of the Plan's assets. Monitoring will include periodic meetings with the Manager(s), and a quarterly performance evaluation performed by the Consultant.

Each performance evaluation will include:

1. The present and prospective economic climate;
2. Current period and historical, time-weighted rates of return for the overall Plan, including an evaluation against the previously specified performance standards;
3. Current period and historical, time-weighted rates of return for each Manager, including an evaluation against the previously specified performance standards;
4. Additional quantitative measures and analysis will be employed to objectively monitor each Manager's compliance with investment policies and guidelines.
5. An understanding of the strategy being used by each Manager to carry out the current Investment Policy; and
6. Opportunities available within current and prospective asset categories.

The Retirement Plan Committee requests that all documents, exhibits, written materials, etc. to be used during the meetings be submitted in advance.

Individual Investment Manager Objectives

On a quarterly basis, the performance of each of the investment managers will be compared to a relevant benchmark index and to a relevant universe of investment management firms. The ongoing review and evaluation of investment manager results will be the responsibility of the Retirement Plan Committee, with the assistance of the Consultant.

The primary emphasis of the review of each investment manager will be placed on relative rates of return and risk as compared against relevant benchmarks, peers and expectations for each specific manager.

Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should exceed the total return of the relevant index.

- The total return of each portfolio should rank median or higher when compared to the relevant peer group.

In addition to relative rates of return each portfolio's performance will be evaluated based on its relative risk profile as measured by its standard deviation and other benchmark relative statistics; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Passive portfolio allocations are expected to approximate the risk and return profile of the appropriate benchmark.

Rebalancing Policy – Overall Fund Allocation

The system of asset allocation rebalancing to be utilized involves a target asset mix around which variance is allowed within prescribed limits. Rebalancing will be addressed when a limit is reached or exceeded. In addition to monitoring target and actual allocations quarterly, the Retirement Plan Committee will formally review the policy and actual allocations in light of anticipated cash flow.

Review of Investment Management

Manager(s) are responsible for frequent and open communication (in writing) with Management and the Consultant on all significant matters pertaining to Investment Policy and the management of the Plan's assets, including, but not limited to:

1. A quarterly report of major changes in each Manager's investment outlook, investment strategy and portfolio structure.
2. Any significant changes in ownership, organizational structure, financial conditions, or senior personnel staffing of each Manager's organization.
3. Any investment guidelines which inhibit the fulfillment of a Manager's fiduciary duties, inappropriately restrict performance, or prevent the manager from meeting their performance standards.

Proxy Voting

The Trustees confer the right to vote proxies to the Manager(s), unless the Manager(s) are otherwise notified by the Retirement Plan Committee in writing. It is expected that Manager(s) will vote for the sole benefit of the Plan participants and beneficiaries, considering those factors that may affect the value of the Plan's investments and not subordinate the interests of the participants and beneficiaries in their retirement income to unrelated objectives.

A summary of votes cast shall be submitted to the Retirement Plan Committee on an annual basis. This summary must identify the company, number of shares held, subject proxy issues, actual vote (whether for or against the Retirement Plan Committee's recommendation), and justification.

Directed Brokerage

With regard to directed-brokerage, the Trustees do not require the Manager(s) to trade securities through an individual or set of broker-dealers. The Trustees wish to give the Manager(s) full discretion over their choice of broker-dealers, so long as the Plan's total cost or proceeds of transactions are the most favorable under the circumstances.

Tenure

While the relationship with Manager(s) is expected to be ongoing, the Retirement Plan Committee reserves the right to terminate their relationship with any retained Manager at any time they deem appropriate.

In General Managers are fiduciaries with discretion to implement the guidelines within the direction provided by this Statement..

Managers should present (and obtain approval on) material changes in their investment style, philosophy or process to the Retirement Plan Committee before implementing any changes on behalf of the Plan.

Managers (except commingled funds) are prohibited from using warrants, options, futures, collectibles, leverage, mutual funds (money market funds exempted), LLCs, ETFs, unit investment trusts, margin purchases or short sales, securities of Plan service providers (custodial bank notwithstanding), and loaning or pledging securities (certain index funds exempted). While commingled funds are exempt from the prohibited securities noted above, they are expected to be managed within the guidelines set forth for each fund. Commingled fund managers are required to comply with the appropriate performance standards and reporting requirements contained in this document.

If a Manager would like to purchase a security that falls outside of this Plan's investment guidelines (commingled funds exempted), or is in doubt as to the goal and intent of these guidelines, they should submit a written request for clarification to the Retirement Plan Committee prior to purchase. Any security not specifically defined or permitted within is prohibited for investment on behalf of this Plan.

Cash Equivalents The cash equivalents Manager may invest in any institutional money market fund (“Fund”) that follows the following objectives and policies:

1. The Fund seeks to provide current income while maintaining liquidity and a stable share price of $1.
2. The Fund invests primarily in high-quality, short-term money market instruments, including certificates of deposit, Bankers Acceptances, commercial paper (except ABS commercial paper), and other money market securities.
3. To be considered high-quality, a security generally must be rated in one of the two highest credit-quality categories for short-term securities by at least two nationally recognized rating services (or by one, if only one rating service has rated the security).

4. If unrated, the security rating must be determined by the manager, subject to the limitations in item 3.
5. The Fund maintains a dollar-weighted average maturity of 90 days or less.

Total Plan Performance

The primary investment objective is to meet the long-term financial goals of the Lansing Board of Water and Light Plan. The Plan's asset allocation will be used as the primary tool to achieve this goal.

The Plan is expected to meet or exceed the following objectives over a full market cycle (usually three to five years):

1) Earn a rate of return after all expenses that equals or exceeds the current actuarial assumed rate of return of 7.5%

2) The Plan's total return should exceed the total return of the Policy index comprised of the following: 50% in U.S. equities, 10% in non-U.S. equities and 40% in Global Fixed Income.

3) The Plan's total return should rank at median or above when compared to a universe of other portfolios with a similar equity allocation.

4) In addition to relative rates of return the Plan's performance will be evaluated based on its relative risk profile as measured by its standard deviation, beta, correlation to the Policy Index, risk adjusted returns as measured by the Plan's Sharpe ratio and performance in up and down markets.

Conclusion

It is in the intent of this Statement to state an attitude and/or philosophy which will guide Managers toward the performance desired. It is further intended that these objectives be sufficiently specific, but also sufficiently flexible.

It is the opinion of the Commissioners that these limitations and guidelines will not prevent a Manager from achieving the objectives set forth.

Glossary of Investment Terms

Alternative Investments - These investments are typically made through the purchase of limited partner units in a private limited partnership. Alternative investments include hedge funds, managed futures and commodities, private equity, real assets and other.

Asset Allocation - A process used to determine the optimal allocation of a fund's portfolio among broad asset classes.

Benchmark Index - An index against which the investment performance of a Manager can be compared for the purpose of determining the value added by the Manager. A benchmark portfolio must be of the same style as the Manager, and in particular, similar in terms of risk.

Best Execution - This is formally defined as the difference between the strike price (the price at which a security is actually bought or sold) and the fair market price which involves calculating opportunity costs by examining the security price immediately after the trade is placed. Best execution occurs when the trade involves no opportunity cost, for example when there is no increase in the price of a security shortly after it is sold.

Fiduciary - Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person.

Funding Risk - The risk that anticipated contributions to the fund would not be made.

Liquidity - In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Nominal Return - The nominal return on an asset is the rate of return un-adjusted for any change in the price level. The nominal return is contrasted with the real return that is adjusted for changes in the price level.

Standard Deviation - A statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically are. The wider the range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns are normally distributed (i.e. has a bell shaped curve distribution) then approximately two-thirds of the returns would occur within plus or minus one standard deviation from the sample mean.

Strategic Asset Allocation – The strategic mix of assets designed to accomplish a long-term goal such as funding medical benefits. Generally, policy targets are set for the strategic asset classes with allowable ranges around those targets. The allowable ranges are established to allow flexibility in the management of the investment portfolio.

Systematic Risk - The part of a security's total risk that is related to movements in the market and therefore cannot be diversified away.

Tactical Asset Allocation – The tactical mix of assets is short-term in nature with a goal of maximizing returns. This strategy is used to take advantage of current market conditions that may be more favorable for one asset class over another.

Time-weighted Return - A method of measuring the performance of a portfolio over a particular period of time. It is the cumulative compounded rate of return of the portfolio, calculated on each date that cash flow moves into or out of the portfolio.

Universe - A group of Managers/Funds chosen to have an investment style similar to the Manager/Fund and used for comparison purposes.

RESOLUTION 2017-_____

Revised DB and VEBA Investment Policy Statements

WHEREAS, the Board of Water and Light (the "Sponsor") sponsors the Lansing Board of Water and Light Defined Benefit Plan for Employees' Pensions (the "Defined Benefit Plan") and the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water and Light (the "Retiree Medical Benefit Plan"); and

WHEREAS, the Retirement Plan Committee has reviewed the current (i) Lansing Board of Water & Light Defined Benefit Plan for Employees' Pensions Statement of Investment Policies, Procedures and Objectives; and (ii) the Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light Statement of Investment Policies, Procedures and Objectives, in conjunction with a transition to a new benefit plan investment consultant; and

WHEREAS, the Retirement Plan Committee recommends the Sponsor adopt the revisions reflected in the attached (i) Lansing Board of Water & Light Defined Benefit Plan for Employees' Pensions Statement of Investment Policies, Procedures and Objectives; and (ii) Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light Statement of Investment Policies, Procedures and Objectives; and

WHEREAS, the Sponsor wants to adopt the revisions reflected in the attached (i) Lansing Board of Water & Light Defined Benefit Plan for Employees' Pensions Statement of Investment Policies, Procedures and Objectives; and (ii) Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light Statement of Investment Policies, Procedures and Objectives;

THEREFORE, it is:

RESOLVED, that, after its review, and based on the recommendation from the Retirement Plan Committee, the Sponsor adopts and approves: (i) the attached Lansing Board of Water & Light Defined Benefit Plan for Employees' Pensions Statement of Investment Policies, Procedures and Objectives; and (ii) the attached Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light Statement of Investment Policies, Procedures and Objectives.

STATUS OF MANAGEMENT RESPONSES TO AUDITS
JUNE 2017

In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
Open Issues:					
33	Outage Management System	The audit recommended more specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results.	Oct 2015	Information Technology	Results provided as part of November 2016 stress test included: development of specific test criteria, testing performed by the call processing vendor, development of test scripts, and a narrative of test results. Based on cost/benefit analysis, the remaining reccommendations from the stress test will be incorporated into the new OMS solution, scheduled for implementation in 2018.
44	Billing	To address safety concerns associated with high consumption residential customers, management is discussing possible revisions to existing Rules and Regulations and coordination of public safety initiatives with other public agencies.	Nov 2016	Planning & Development	Applicable language has been incorporated into proposed changes to BWL Rules and Regulations. In addition, BWL is complying with the City of Lansing's Home Occupation Ordinance.
45	Performance Evaluation & Compensation	Internal Audit recommended additonal standardization of performance evaluation procedures.	Jan 2017	Human Resources	Further development of the BWL performance management process for non-bargaining employees is underway, including additional participation throughout the year and goals and objectives in line with the new BWL Strategic Plan. The SMART concept already in use will be expanded upon (i.e., employee performance goals are SMART, which stands for Specific, Measurable, Action-oriented, Realistic and Time bound). Estimated completion date is 7/1/18.
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Human Resources will coordinate an update of job descriptions, in collaboration with each area throughout the organization. This project will incorporate multiple phases, beginning with planning and identifying needed resources. Estimated project completion is 6/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	Jan 2017	Human Resources	Decoupling of base and merit increases is already underway, including budgeting of the two separate categories of increases for fiscal 2018 and development of corresponding instructional information. Project completion is expected by 7/1/18.
48	Collections *NEW*	Internal Audit supports adding a requirement to check customer credit prior to opening a new account.	March 2017	Customer Service	A new tool will being implemented, by 8/1/17, to help ensure deposits are consistently and appropriately applied to new customers.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
50	Follow-Up of Training & Development Audit *NEW*	Internal Audit noted the need to reemphasize use of LMS and continue with refresher training.	May 2017	Training & Development	Refresher training in LMS will be provided by 9/30/17 and use of LMS will continue to be reemphasized.
51	Follow-Up of Training & Development Audit *NEW*	Internal Audit recommended Training & Development coordinate with department trainers to better ensure training completions are entered into LMS, along with considering the eventual use of LMS as the primary source for Balanced Scorecard Reporting of training time.	May 2017	Training & Development	Workshops for departmental trainers, including an online procedure for entering training completions to LMS, will be developed and delivered by 9/30/17. The workshops will be followed by management's assessment of the accuracy and completeness of training documentation in LMS, concluding with a recommendation, by 3/31/18, regarding use of LMS data in Balanced Scorecard reporting.
52	COBIT Compliance *NEW*	Internal Audit noted that actions should continue on as expedited a schedule as possible to reach full compliance with the adopted IT governance framework.	June 2017	Information Technology	Multiple actions and completion dates are involved, including higher-risk, as-yet-incomplete items 1.6 (an implemention plan for the IT Strategic Plan, expected by 7/1/17); 8.2 (Quality Management System) and 9.3 (Risk Management Plan), by 12/31/17; 3.2, 4.5, 6.2, and 8.1 (all to be provided via the new governance framework), by 12/31/18; and 4.1 (replace Cobit governance framework with CMMI), by 6/30/19.

Closed Issues (since March 2017 report):

17	Close the Books	The Internal Auditor recommended that consideration be given to the use of a general accounting manual.	Aug 2014	General Accounting	A General Accounting Procedure Manual was finalized in May 2017.
27	Management of Mobile Devices	The Internal Auditor recommended encrypting data on all remaining laptops and smart phones.	Sept 2015	Information Technology	IT has encrypted the laptops used by field personnel and established user guidelines. Guidelines instruct BWL users to encrypt sensitive data on their own mobile devices. Software with remote management capabilities has been procured, installed, and deployed.
29	Management of Mobile Devices	Internal Audit recommended further consideration of procuring software with remote cleaning capabilities.	Sept 2015	Information Technology	Software with remote management capabilities has been procured, installed, and deployed.
37	Hiring Process	Internal Audit has requested that an all-encompassing hiring policy be documented.	May 2016	Human Resources	Human Resources developed an operational policy which addresses BWL hiring standards in their entirety.
49	Collections *NEW*	Internal Audit suggests continued monitoring of the appropriateness of the dollar threshold for Final Notice to customers prior to an unpaid account becoming eligible for shut-off of services.	March 2017	Customer Service	Management continues to monitor the appropriateness of the dollar threshold for Final Notice.

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
E-2	IT Risk Assessment by External Auditors	It was noted that network and financial application password settings need strengthening, including establishing requirements that passwords be changed every 90 days, be a minimum length of 8 characters, and include special characters. In addition, 8 prior passwords should be remembered and user accounts should be locked after 3-5 failed login attempts.	Sept 2016	Information Technology	Enhancement of network, mainframe, and application password settings has been completed.
E-3	IT Risk Assessment by External Auditors	Management letter indicated that user account access should be reviewed annually by management for appropriateness, following the least privilege principle, with documentation of reviews retained.	Sept 2016	Information Technology	IT's review of user access to CIS and SAP with management has been completed.
E-5	IT Risk Assessment by External Auditors	Baker-Tilly noted that the Windows 2003 operating system on which the DP250 database runs needs upgrading.	Sept 2016	Information Technology	The DP250 database is now running on an updated operating system.

Internal Audit Status Report

Presented by:
Phil Perkins, Director of Internal Audit
Finance Committee Meeting
July 2017

Overview

- External 5-Year Independent Review Results
- FY 2017 Audit Plan Progress Report
- Proposed FY 2018 Audit Plan
- Other Items

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External 5-Year Independent Review

- Overall – Internal Audit at BWL was assessed as "generally conforming" to the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.
- 5 non-binding recommendations for enhancements:
  1. <u>Change weightings on individual risk assessments</u> to better quantify risk ratings for each activity in the audit universe. Internal Audit response: Concur and adopted the recommendation. Completed for FY 2018 risk assessment and will use the updated model going forward.
  2. <u>Include a separate "risk" category</u> in audit reports for all issues presented. Internal Audit response: Partially concur and will adopt the recommendation as needed (an effect or impact statement is now included with each issue).

External 5-Year Independent Review

- Non-binding recommendations for enhancements (cont'd):
  3. The CEO Hotline should be an auditable area. Internal Audit response: Concur. Internal Audit will work with management to gain access to hotline complaints that involve potentially fraudulent or otherwise illegal or unethical behavior, with the objective being to address control or procedural improvements to prevent similar incidents in the future. Estimate completion of a working approach by July 31, 2017.
  4. Audit planning should include consulting during System Development Life Cycle for major system development and acquisition. Internal Audit Response: Concur. Internal Audit is working with management to provide both informal and formal advice and consulting on current BWL major projects such as the ADMS, AMI, new plant construction, and replacement CI system, as well as any future such projects.

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External 5-Year Independent Review

- Non-binding recommendations for enhancements (cont'd):
    5. Risk assessment discussions between the Internal Auditor and the Finance Committee should be documented so that the approval of the annual audit plan and accompanying resources reflect the results of such discussions. Internal Audit Response: Concur. The Internal Auditor will include in his recommended audit plan why the number and type of audits and resources needed are optimal based on assessed risks, and this will be documented in Finance Committee meeting minutes accordingly.

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FY 2017 Audit Plan Progress Report

Engagements Completed:

1. Follow-up Training & Development Audit
2. Collections Audit
3. COBIT Compliance Audit
4. New Service Order Management – Water Audit
5. Performance Evaluation/Compensation/Merit Pay Audit
6. Surprise Cash Counts (2)
7. Employee Time Reporting Reviews (2)
8. Vehicle Time Reporting Reviews (1)

Engagements in Progress:

1. Payroll Management Audit (estimated 75% complete)
2. Identity and Access Management Audit (estimated 50% complete)
3. Follow-up Hiring Process Audit (estimated 67% complete)

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Proposed FY 2018 Audit Plan - Background

Basis for plan:

1. Meetings with Executives and Staff to discuss risks and potential audit topics.
2. Risk assessments for each of 100-plus auditable activities at BWL.
3. Consideration of rotational audits, audit areas with risk/scoping assessments, first-time audits, etc.
4. Identified at least 19 potential audits to perform in FY 2018 and beyond.

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Proposed FY2017 Audit Plan - Background

Top 10 audits for FY 2017 (as discussed and agreed with senior management):

1. ***Cash Receipts***
2. ***IT – Help/Service Desk***
3. ***Succession Planning***
4. ***Customer Payment Arrangements & Third Party Payments***
5. ***Contract Authorization/Approval Process***
6. ***Physical Access Security Management***
7. ***Water Production Plant Audit***

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8. ***Power Purchase Agreements***
9. ***Accounts Payable***
10. ***Cash Management/Treasury***

Below the line will be deferred beyond FY 2018.

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Proposed FY 2018 Audit Plan

Planned Audits:	**Estimated Hours**
Cash Receipts	300
IT Help/Service Desk Management	300
Succession Planning	300
Customer Payment Arrangements	300
Contract Authorization/Approval Process	300
Physical Access Security Management	300
Water Production Plant Reporting	300
Other Engagements:	
Surprise Cash Counts (2)	50
Time Reporting Reviews (2)	150
Consulting – Project Development/Acquisition	200
Total Estimated Hours	**2,500**

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Proposed FY 2018 Audit Plan, Cont'd

Available Resources:

Resource	Position	Available Hours
Phil Perkins	Director of Internal Audit	1,500
C. L. Moore & Associates	Augmented IA Services	800
Internal or External IT Audit Assistance	IT Audit Services	200
Total Hours		**2,500**

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Proposed FY 2018 Audit Plan, Cont'd

– Questions?
– Recommend Approval of FY 2018 Audit Plan

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Other Items

1. Internal Auditor Continuing Professional Education/Certification Status:
   - On target to complete all CPE requirements for CPA, CIA and CISA designations this year.
   - CPE will be reported to proper authorities so that certifications (and in the case of CPA, licensure) will be maintained through 2017 and beyond.

2. Internal Audit Charter – Annual Renewal needs approval (no proposed changes to current version approved last year)

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