METROPOLITAN WATER RECLAMATION DISTRICT
RETIREE HEALTH CARE TRUST
INVESTMENT POLICY STATEMENT

Adopted November 19, 2009

Revised December 19, 2013

Revised November 15, 2018

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INTRODUCTION AND PURPOSE

The Board of Commissioners of the Metropolitan Water Reclamation District of Greater Chicago (the "District"), as Trustee of the Metropolitan Water Reclamation District Retiree Health Care Trust (the “Trust”), hereby adopts this Investment Policy Statement for the Trust. The Trust provides other post-employment medical benefits (“OPEB”) to retired employees and their dependents in accordance with a Plan adopted by the District. The Trust is authorized under Illinois Statute 70 ILCS 2605/9.6d. The Plan and the benefits provided thereunder are funded in part by contributions by the District.

SCOPE

This Investment Policy applies to all financial assets of the Trust. The management of District investments and the District’s Retirement Plan investments are excluded from the scope of this policy. The Board of Commissioners of the District serves as Trustee of the Trust, and is responsible for the safekeeping and investment of Trust assets. To assist the Trustee in its function, one or more Investment Advisors may be appointed.

FIDUCIARY RESPONSIBILITIES

The Trustee, and certain persons they designate to carry out their duties or responsibilities, are fiduciaries under the Trust. Each fiduciary has only those duties or responsibilities specifically assigned to him under the Trust or delegated to him by another fiduciary. The Trustee and all other fiduciaries shall discharge their duties with respect to this Trust solely in the interest of the participants and beneficiaries of the Trust. Such duties shall be discharged for the exclusive purpose of providing benefits to the Participants and Beneficiaries and defraying expenses of the Plan.

Training will be provided to the Trustee and Executive Committee on an annual basis. The training should focus on subjects that assist the Trustee in meeting its fiduciary responsibilities.

EXECUTIVE COMMITTEE

The Board of Commissioners of the Metropolitan Water Reclamation District appointed an Executive Committee, comprised of the Chairman of the Committee on Finance, the Treasurer of the District, and the Director of Finance of the District, to be responsible for certain activities with regard to the Trust, subject to approval of the Board of Commissioners. These activities include but are not limited to: recommendation of an Investment Advisor; acceptance or rejection of investment recommendations from the Investment Advisor; investment policy review; asset allocation structure; asset performance reviews; execution of investments; and other financial responsibilities.

ETHICS AND CONFLICTS OF INTEREST

The Trustee and other designated persons involved in the investment process shall not engage in personal business activities that could conflict with the proper execution of the investment program or could impair their ability to make impartial decisions. Employees and investment officials involved in the investment process shall disclose to the Trustee any material financial interest in, or personal relationship with, any financial management firm, financial institution, or brokerage that conducts business with the Trust.

INVESTMENT OBJECTIVES

The assets of the Trust shall be invested in accordance with the following objectives:

1. General Standard – Assets of the Trust shall be invested in a manner consistent with applicable fiduciary standards:
    a. The safeguards and diversification that a prudent investor would adhere to must be present.
    b. All transactions undertaken on behalf of the Trust must be for the sole interest of Plan Participants and their beneficiaries.
    c. All fiduciaries shall discharge their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and as defined by Illinois law.

2. Liquidity – Sufficient liquidity shall be maintained to cover benefit payment outflows. Liquidity requirements shall be determined primarily by the flow of revenues and expenditures on a cash flow basis. The Trustee shall regularly advise the Investment Advisor of its current and foreseeable cash flow needs.

3. Low Expenses - Assets of the Trust shall be invested in such a way as to minimize administrative costs, asset management fees, and brokerage costs.
    a. No finder's fee or other compensation will be paid to any consultant or investment manager.
    b. It is the Trust Fund's policy to encourage the use of investment managers and broker/dealers owned by minorities, women, and persons with disabilities who are capable of providing "best execution" (commission cost plus market impact) to be given an opportunity to do so.
    c. The cost of investment management fees should be a consideration in strategy selection. In most cases, the lowest cost investment vehicle offered by an investment manager should be used. If the lowest cost investment vehicle is not utilized due to the consideration of other quantitative or qualitative evaluations, the Executive Committee must approve such selection.

4. Compliance With Statutory Standards – The assets of the OPEB Trust shall be managed by the Treasurer of the District in any manner, subject only to the prudent investor standard and any requirements of applicable federal law. The limitations of any other statute affecting the investment of District funds shall not apply to the OPEB Trust. The Trustee shall adopt this investment policy consistent with the standards articulated in section 2.5 of the Public Funds Investment Act (30 ILCS 235/12.5) and the Metropolitan Water Reclamation District Act (70 ILCS 2605/9.6d)

5. Return on Investment - The objective of the Executive Committee is to achieve long-term investment performance exceeding the Trust's calculated Other Post-Employment Benefits ("OPEB") actuarial investment rate of return. While expecting to meet or exceed these objectives over time, it is understood that over shorter periods of time, investment returns may not meet the target rate of OPEB funds. The investment portfolio shall be designed with the objective of achieving at least the minimum return, consistent with the annual liability of the Fund, but at the same time taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

TRUST PORTFOLIO AND ASSET ALLOCATION TARGETS

Investments shall be limited to publicly traded securities and mutual funds, adequately diversified among various market segments and sectors in both the United States as well as other developed countries and emerging markets. Initially, the Trust will invest assets exclusively in passively and actively managed mutual funds or exchange-traded funds registered under the Securities Act of 1940 because of their lower cost as compared with the use of outside investment managers. No load mutual funds will be utilized when possible. Passively managed mutual funds invest in a portfolio of securities that replicates a designated index or benchmark. Actively managed mutual funds implement investment strategies intended to provide returns that exceed those of a designated benchmark or index. If an investment strategy is later adopted that utilizes investment managers, the Trustee may appoint one or more investment managers to manage or control all or part of the assets of the Trust. Such managers must be registered as an investment advisor under the Investment Advisors Act of 1940.

The Trust, based on its overall purpose of supporting the long-term financial ability to fund retiree healthcare expenditures, is structured to provide competitive performance while minimizing the potential for losses. The asset allocation targets for the Trust are as follows:

Asset Class	Fund Asset Mix		
	Minimum	Normal	Maximum
Domestic Equities	40%	45%	50%
International Equities	15%	20%	25%
Fixed Income Securities (Bonds)	30%	35%	40%
Cash/Cash Equivalents (Money Market)	0%	<1%	100%

In the review of investment options, asset allocation is a critical contributor to risk and return. Market movement, cash flows, investment performance, etc., may cause asset allocation percentages to deviate from the Trust's targets. It is the Executive Committee's responsibility, with advice from the Investment Advisor, to monitor the percentages of each asset classification. The assets shall be re-balanced periodically to approximate the specific target allocations in use at that point in time. See "REBALANCING POLICY" below.

Under normal operating circumstances (when fund is fully invested), investments in any one actively managed equity strategy should be limited to 15% and in any one actively managed fixed income strategy should be limited to 25% of the total portfolio market value. More than one investment manager should be utilized per investment class when possible. Investments in any one actively managed international investment strategy should be limited to 15% of the market value of the investment portfolio. Alternative investment strategies should be limited to 5% of the market value of the investment portfolio.

The Trust may maintain cash reserves in money market securities. For temporary, defensive purposes, the Trust may invest without limitation in cash reserves. A reserve position provides flexibility in meeting redemptions, expenses, and the timing of new investments, and serves as a short-term defense during periods of unusual volatility. In situations where the Trustee determines that the divestiture of an asset class is necessary to protect the valuation, safety, or liquidity of the portfolio, amounts may temporarily exceed the maximum asset mix limit.

Investments shall be made with judgment and care, with prudence, discretion, and intelligence exercised in the management of the Fund assets. The investment process should be disciplined and designed to avoid random decision making and reduce the risk of loss.

INVESTMENT OPTIONS

The Trustee will select and maintain a diversified investment portfolio. To ensure diversification, the Trust investments will include high-quality strategies that range in objective from capital preservation to capital appreciation, while mitigating the overall level of risk that the Trust undertakes.

To ensure proper diversification, the Trust investments should include a variety of investment alternatives, each of which: (a) is diversified; (b) has materially different risk and return characteristics; (c) enable creation of a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for the Trust; and (d) when combined with investments in the other alternatives tends to minimize, through diversification, the overall risk to the Trust's portfolio. In this regard, the Trustee agrees that it is appropriate, at a minimum, to include the following asset types/styles:

General Asset Class Category Descriptions	
Principal Protection (Money Market, Fixed Accounts, Illinois Funds local government pool, or Stable Value)	• Seek the highest level of stable income consistent with the safety of principal afforded by the portfolio's investments. • The portfolio may hold U.S. Government and Agency securities and other money market securities issued by corporations.
Bond	• Provides exposure to a variety of fixed income instruments. • Fund may provide exposure to U.S. or global bond markets including government, agency, corporate, mortgage-backed, Treasury inflation-protected securities (TIPS), and high-yield sectors.
Equity - Domestic and International	• Provides broad equity market exposure with the opportunity of capital appreciation and income through dividends. • Includes access to all market capitalizations and emerging market equities. • Funds include domestic and international large cap value, large cap growth, large cap core, mid cap value, mid cap growth, mid cap core, small cap value, small cap growth, and small cap core.
Alternative	• Investments not to exceed 5% of the total market value of the portfolio. • Includes real estate investment trust (REIT) funds, natural resource funds, private equity funds, or other alternative asset classes.

The Trustee has the sole discretion to establish and alter the Fund's investments as deemed appropriate to meet the above stated guidelines, unless additional approvals as set forth in the Trust Document are required.

Trustee may deem it appropriate to close or eliminate an investment strategy as a result of the review process set forth in the Investment Performance and Risk Standards Section of this Policy Statement. Before such action is taken, full consideration will be given to:

- The impact on the Trust investment program and its beneficiaries,
- Alternative options for funds invested in the closing strategy,
- The appropriate timing of such a change given administrative, communications and other investment program matters.

INVESTMENT PERFORMANCE

Investment standards are set to provide guidance in the selection and retention of investments for the Trust. The standards serve to ensure that Trust investments meet minimum performance and risk expectations. The standards are as follows:

1. Trust performance will be measured against the investment rate of return employed in the actuarial study considered by the Trustee in operating the Trust. This comparison is intended as a reference and should not be construed as a forecast of or a guarantee as to the Trust's performance relative to the actuarial discount rate of return. Additionally, over a complete market cycle, the Total Fund performance has a secondary goal of outperforming a weighted passive portfolio comprised of a mix of 35% Bloomberg Barclays U.S. Aggregate Index, 25% S&P 500 Index, 10% Russell Mid-Cap Index, 10% Russell 2000 Index, 5% MSCI ACWI Minimum Volatility Index, 15% MSCI EAFE Index.

2. Performance of investments held by the Trust will be objectively measured against appropriate market benchmarks and peers to ensure that each fund is performing in line with expectations for the pertinent asset class and style.

   Each actively managed fund's performance will be measured against:

   a. A pre-established peer group that reflects the fund's asset class and style:
      i. The peer group will consist of a broad universe of like-style investment strategies as compiled and measured by a consultant or other third party database such as Morningstar, Lipper, or other rating services.
      ii. The evaluation will consider performance over shorter and longer time periods, e.g. quarterly as well as one-, three-, and five-year periods.
      iii. Investment strategy performance is expected to exceed the top thirty-third percentile (33%) of peer universe groups over rolling three-year periods as measured by both:
         (a) Investment returns; and
         (b) Risk-adjusted returns.

   b. A pre-established market benchmark that reflects the investment strategy's asset class and style:
      i. The evaluation will consider performance over shorter and longer time periods, e.g., quarterly as well as one-, three-, and five-year periods.
      ii. Strategy performance is expected to exceed benchmark returns over rolling three-year periods.

   Each passively managed investment strategy's performance will be measured against:

   a. A pre-established peer group of investment strategies that reflects the fund's asset class and style:
      iii. The peer group will consist of a broad universe of like-style investment strategies as compiled and measured by a consultant or other third party database such as Morningstar, Lipper, or other rating services.
      iv. The evaluation will consider performance over shorter and longer time periods, e.g. quarterly as well as one-, three-, and five-year periods.

   b. A pre-established market benchmark that reflects the fund's asset class and style:
      v. The evaluation will consider performance over shorter and longer time periods, e.g., quarterly as well as one-, three-, and five-year periods.

vi. Investment strategy performance is expected to approximate benchmark returns over rolling three-year periods as evidenced by a low tracking error relative to the returns of the benchmark index.

See Appendices 2 and 3 for Asset Class and Benchmark Indices definitions.

Use of benchmarks for Active versus Passive investments
While the benchmark for an asset class that is used to evaluate an investment remains the same for an investment in an active or a passive strategy, the evaluation is somewhat different. In the case of an investment in an actively managed strategy, the investment is evaluated in comparison to the benchmark and in terms of excess return relative to the benchmark or over or under performance. One would expect an actively managed investment to earn returns that exceed the returns of the benchmark index without substantial difference in volatility between the fund and its benchmark. In the case of a passively managed investment, it is still evaluated in comparison to the benchmark but in terms of how closely its performance and volatility has tracked the performance and volatility of the benchmark. One would not expect substantial deviation between the return and volatility of the benchmark and the passively managed investment.

3. Funds' non-investment performance-related factors will also be reviewed to confirm the appropriateness of the strategy option in the line-up. Such factors include but are not limited to:
   a. Company management, to ensure that the organization is stable and adequately supports portfolio management. The reputation and the experience of the Investment Company will be kept current and provided to the Executive Committee as changes occur.
   b. Strategy management, to ensure that portfolio management resources are stable and positioned to produce successful results in the future.
   c. Strategy fees, to ensure that they are in line with peers and do not have an inordinate negative impact on net-of-fee performance results.
   d. Fund ratings, if the fund is rated by a nationally recognized rating agency.

RISK STANDARDS

The Trust's investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

1. Interest rate risk – The Trust's benefit liabilities extend many years into the future, and this policy is to maintain a long-term focus on its investment decision-making process. Fixed income investments susceptible to interest rate risk will be monitored to prevent such investments from exceeding established allocation targets.

2. Credit risk – A minimum of 75% of fixed income holdings of an actively managed fixed income mutual fund must be of investment grade quality or higher at purchase; rated no lower than "Baa" by Moody's and no lower than "BBB" by Standard and Poor's. The Trustee, at its discretion, may impose a higher standard on an individual investment's circumstances or investment objectives dictate. Fixed income purchases shall be limited to obligations issued or guaranteed as to principal and interest by state, local and foreign governments, or any agency or instrumentality thereof, mortgage-backed and asset-backed securities, corporate bonds, foreign securities (including, but not limited to,

corporate issues, sovereign issues, non U.S. dollar denominated securities, Eurobonds, and emerging market debt securities) and municipal issues.

3. International equity and direct foreign currency exposure risk – It is generally understood that the entire international equity allocation will be denominated in foreign currency. On a market value basis, this allocation will be limited to 25% of the overall portfolio. Periodically there will be direct foreign currency exposure outside of the international equity allocation. Generally, this exposure will be considered de minimis in the context of the overall portfolio and monitored on a periodic basis to determine whether the allocation is appropriate.

4. Custodial credit risk – All investments and investment collateral are to be held in safekeeping by a third party custodial institution, as designated by the Treasurer, in the Trust's name. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities which are in the possession of the outside party. All cash balances are required to be collateralized with permitted U.S. Government Securities in an amount equal to 105% (at market) of the monies on deposit.

INVESTMENT PROGRAM REVIEW AND MONITORING

At least quarterly, the Executive Committee will:

1. Review the performance of the Trust utilizing the standards stated above.
2. Review the performance of each fund utilizing the standards stated above.
3. Determine whether the asset allocation investment strategy employed by the Trust should be modified
4. Determine whether an investment in a fund held by the Trust should be placed on probation, or terminated from the Trust line-up due to:
   a. Investment performance that falls below standards;
   b. Investment style drift; or
   c. Other non-investment reasons, such as a portfolio manager change, a fee increase, etc.
5. Termination
   a. Important to the monitoring process is establishing procedures for recommending fund terminations. While funds are expected to continue to provide favorable results over multiple market cycles, changes in the investment environment or a firm during the interim are expected and may require that corrective actions be taken. Performance shortfalls may occur for any number of reasons. In order to avoid untimely fund termination decisions due to poor performance during difficult periods, an understanding of the investment climate and market cycle are critical to the evaluation process. Evaluation of a fund for possible termination is considered as important as the initial selection decision.
   b. When fund issues or concerns arise, they should be evaluated to determine:
      i. What is the source or cause of the problem?
      ii. Is the source or cause systemic, the result of short-term market conditions or a single error in judgment?
      iii. Is the source or cause something that could not have been expected given the fund's discipline?

    iv. What is the probability the source or cause will happen again?

c. Termination of a fund should be considered at any time, regardless of past performance, if:
    i. There is a change in key personnel or investment philosophy;
    ii. The investment characteristics are not consistent with the stated philosophy;
    iii. There is inconsistency between the stated and actual investment process;
    iv. Assets managed exceed an amount deemed appropriate for the organization or style;
    v. For any reason it is determined that performance expectations for the fund have changed;
    vi. Fund objectives are revised and the fund is no longer appropriate; and/or,
    vii. The investment firm does not act in the best interest of the investors in the fund.

d. Evaluations should be comprehensive and forward-looking. They should include the activities noted above in an effort to determine the possible impact on future performance. Suspect funds should be monitored by the Investment Advisor and identified in a report to the Executive Committee. As with investment selection recommendations, terminations must be approved by the Executive Committee.

At least annually, the Executive Committee will review the adequacy of the Trust investment strategy as measured by guidelines set forth in the "Investment Objectives" section of this Policy Statement.

REBALANCING POLICY

Periodic rebalancing of the investment portfolio will be completed to maintain the portfolio's asset allocation and risk exposure. Rebalancing back to the target allocation keeps the portfolio at a consistent risk exposure and minimizes deviations in returns as exhibited in the tracking error of the portfolio.

An investment report which provides the most recent quarter-ending allocation to equities and fixed income investments will be distributed and reviewed quarterly. The Executive Committee will consider reallocation of the assets at quarter-end and unless deemed unnecessary, the Executive Committee shall approve the rebalancing to the target allocation amounts. The Treasurer will execute the rebalancing transactions.

Interest, dividend, and capital gain distributions will not automatically be reinvested; instead, they will be accumulated in a cash or money market account and reinvested as part of the quarterly portfolio rebalancing effort.

PROHIBITED INVESTMENTS

Prohibited investments include but are not limited to the following:

1. Commodities and Future Contracts;
2. Private Placements;
3. Options;
4. Hedge Funds – Derivatives

OTHER RESTRICTIONS

All mutual fund investments made on behalf of the Metropolitan Water Reclamation District Retiree Healthcare Trust shall be invested in accordance with the investment manager's investment guidelines for the underlying mutual fund. The investment manager's guidelines for the mutual fund shall override any restrictions or stipulations as outlined in this document.

INTERNAL CONTROLS, AUDITING, AND REPORTING REQUIREMENTS

The Treasurer of the District shall establish a system of internal controls designed to prevent losses of funds that might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by fiduciaries of the Trust.

Internal controls shall be reviewed by an independent auditor on an annual basis. This review will ensure compliance with policies and procedures.

A written report shall be prepared for the Trustee by the District's Treasurer or his designee on an annual basis. The report shall include a summary of investment activity prepared in compliance with generally accepted accounting principles, and shall include the following:

1. A balance sheet, showing the financial conditions of the Trust as of the end of the calendar year;
2. A statement of receipts and disbursements during such year;
3. A statement showing changes in the asset, liability, and reserve and surplus accounts during such year;
4. A detailed statement of investments marked-to-market as of the end of the year; and
5. Any additional information as is deemed necessary for proper interpretation of the condition of the Trust.

APPOINTMENT OF INVESTMENT ADVISORY FIRM

The competitive procurement process of the Metropolitan Water Reclamation District of Greater Chicago will be utilized for the selection of the investment advisory firm. The Board of Commissioners will authorize the selection of the investment advisory firm based upon the outcome of the proposal, interview process, and recommendation of District staff.

DUTIES OF THE INVESTMENT ADVISORY FIRM

The investment advisory firm will be expected to perform to the Prudent Expert Standard. Duties are defined as follows:

1. Assist in Preparation of the Investment Policy and Procedures:
   The advisor will assist in creating the Investment Policy and Operating Procedures for the Trust. Furthermore, the advisor will periodically review and make recommendations to revise investment-related policies and procedures as needed.
2. Assist in establishing appropriate asset allocation strategies for the trust fund:
   The advisor will assist in specifying the asset allocation within each category based on the District's investment objectives.
3. Assist in selecting investments according to established criteria:
   Based on the criteria established within the investment policy, the advisor will identify suitable investments to achieve the Trust's objectives. An investment structure utilizing mutual funds or ETF's is anticipated initially. As Fund assets grow, commingled fund and separate account vehicles can be considered. The advisor will assist in RFP process for investments if required.

4. Assist in establishing appropriate benchmarks and other criteria for evaluating performance:
   The advisor will identify performance monitoring criteria for each recommended class of investments and provide ongoing evaluation of the portfolio's performance.
5. Conduct portfolio analysis:
   The advisor will prepare initial and annual asset allocation studies, and make recommendations for appropriate changes in accordance with the contribution schedule and actuarial analysis performed by the District's actuary.
6. Trust Fund Reporting:
   The advisor will provide quarterly and annual performance reporting, including but not limited to a list of securities held at end of period, realized and unrealized gains and losses, investment income, expenses, and other performance data and analysis for the total fund and individual asset classes relative to the established benchmarks in compliance with the Investment Policy. Annual reports are to be prepared by the advisor as required to meet GASB45 reporting requirements. These reports include the Summary of Plan Assets, Statement of Plan Net Assets, Statement of Change in Plan Net Assets, and Schedule of Employer Contributions.
7. Training:
   The advisor will provide training regarding investment objectives and asset allocation to the Trustees and District Staff involved in the management of the Trust.
8. Ongoing support regarding investment activities related to the Trust Fund:
   The advisor may be called on to provide investment consulting service on an as-needed basis to a maximum of twenty (20) hours per year, in addition to the deliverables described above. These consulting services may cover issues such as fund governance and management, the District's eligibility for different share classes, or reporting format.
9. Meetings:
   The advisor will be expected to meet at least quarterly with District staff, and as otherwise needed, to provide the above-referenced services.

CUSTODY

The Custodian maintains possession of the Trust's assets and insures electronic ownership in the Trust's name. The Custodian provides accurate and timely investment transaction accounting as directed by the Treasurer.

SECURITIES LENDING

1. As an investor in mutual fund shares, the Trust will not directly engage in securities lending.
2. In the normal course of operations mutual funds engage in securities lending. Such transactions are normally handled through third party custodians and secured by cash payments and posting of other forms of collateral.
3. While a fund's policy on securities lending should be considered, investment selections are not restricted to those that do not engage in securities lending as this would inordinately limit the pool of funds in which to invest.

PROXY VOTING

The Executive Committee will vote all proxies solely in the best interest of the beneficiaries of the Trust. The Treasurer shall execute all proxies based upon the Committee's recommendation.

POLICY ADOPTION AND AMENDMENT

This amended policy shall be effective on November 15, 2018, and, upon approval of the Trustee, be amended from time to time as necessary.

IN WITNESS WHEREOF, the Employer and the Trustee have executed this Declaration by their respective duly authorized officers, as of the date first hereinabove mentioned.

FOR THE METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO AS EMPLOYER AND TRUSTEE

THE METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

BY: ______________________________
FRANK AVILA
Chairman, Committee on Finance

BY: ______________________________
MARY ANN BOYLE
Treasurer

BY: ______________________________
JACQUELINE TORRES
Clerk/Director of Finance

BY: ______________________________
JOHN P. MURRAY
Acting Executive Director

ATTESTED TO BY:

____
JACQUELINE TORRES
Clerk/Director of Finance

APPROVED AS TO FORM AND LEGALITY:

____
HELEN SHIELDS-WRIGHT
Head Assistant Attorney

____
SUSAN T. MORAKALIS
General Counsel

APPENDIX 1: Definitions for OPEB Policy and Committee Meetings

Active portfolio management - The process of managing a portfolio with the objective of outperforming the risk-appropriate benchmark by the use of selection and/or timing techniques.

Actual rate of return on Investment – Investment earnings on the market value of assets from the beginning of the fiscal year to the end of the fiscal year.

Actuarial rate of return on Investments – The annual investment return necessary to amortize the unfunded OPEB liability. Investment performance that exceeds or underperforms the target rate may materially impact future funding rates and liabilities.

Alternative Investment – A special subclass of non-securities investments. The objective of these investments is to reduce overall portfolio volatility, increase returns, and prevent loss of principal.

Asset Allocation – The process of assigning Fund assets among major asset classes such as stock funds, bond funds, cash, or alternative investments for the purpose of reducing risk through portfolio diversification.

Asset Class – A grouping of investments with distinctly different risk/return characteristics such that the benefits of diversification are gained when combined with other asset classes.

Balanced Fund – Fund includes both equity and fixed income investments.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points. There are 100 basis points in each percentage point.

Benchmark – The standard used to measure performance of an investment against its objective.

Commingled Fund – an investment vehicle that pools assets of two or more sources under common investment management. Minimum investments in the product are generally less than separate accounts, but more than mutual funds. As in the case with mutual funds, investors are given a representative amount of shares per dollars invested, based upon the product’s net asset value (NAV).

Derivative Security - Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating in order to reduce overall price volatility.

Domestic – Indigenous to and/or domiciled in the United States of America.

Emerging Markets – Capital Markets, usually stock markets, that are relatively new and underdeveloped. Usually located in countries with lower per capital incomes compared to the more developed Western economies.

Equity Investment – Investments in common and preferred stock which provide returns in the form of dividends and capital appreciation or depreciation.

Fiduciary – Those persons holding the duty of loyalty, care, and prudence to the OPEB Trust Fund, pursuant to a prudent person standard. It defines the level of responsibility of trustees, advisors, and consultants who act in a co-fiduciary capacity to their clients.

Fixed Income Investment – An investment which provides a return in the form of fixed periodic payments and an eventual return of principal at maturity.

Fund – The Trust holding all assets of the Metropolitan Water Reclamation District Retiree Health Care Trust.

Futures – An agreement to buy or sell a specified amount of a commodity or financial instrument at a particular price on a stipulated future date.

Growth Style – Companies which are growing faster than stocks in general due to overall sector prosperity or a company characteristic allowing them to increase market share. Typically they will display higher P/E ratios, higher price-to-book ratios, higher earnings growth and lower dividend yields.

Global/World – Investment strategies that include both domestic and international investments.

Global Tactical Asset Allocation (GTAA) - An investment strategy that focuses on investing based upon perceived long-term market trends and exploiting short-term market inefficiencies by establishing positions in relatively attractive areas of the global investable universe. Investment styles can include Fixed Income Replacements, Equity Replacements, Blend (mix of Fixed Income and Equity), and Completion (inclusion of alternative asset classes, inflationary assets, etc). Depending on strategy, investment approaches may diversify across asset classes, sectors, countries, currencies, commodities, instruments, and capital structure.

High Yield – A high paying bond with a lower credit rating than investment-grade corporate bonds, Treasury bonds, and municipal bonds. This rating would fall below 'BBB' as denoted by Standard & Poor's. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds.

Index – Composite measure of returns for securities in a specific market or market sector. Various benchmarks used to measure a portfolio's performance. Each is composed of a group of assets that have a common quality or purpose, and are intended to represent that sector of the market that has those similar qualities.

Interest Rate Risk - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Investment Advisor - The consultant retained for expert advice regarding all investment matters.

Large Cap – Those publicly traded domestic companies comprising the 500 largest as measured by market capitalization, typically those in excess of $8 billion.

Liquidity – The ability to convert assets into cash in a timely manner without a significant risk of loss.

Market Capitalization – The value the market assigns a publicly traded company. Market cap is determined by multiplying the number of shares of common stock outstanding by the per share market price.

Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security.

Mid Cap – Those publicly traded domestic companies comprising the 1000 largest as measured by market capitalization excluding the largest 500. Typically this is between $2 and $8 billion.

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, repos and federal funds).

Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

Mutual Fund Statistical Services - Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services, and Morningstar.

Net Asset Value - The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.) [(Total assets) - (Liabilities)]/(Number of shares outstanding)

No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.

Other Post Employment Medical Benefits - Metropolitan Water Reclamation District Retiree Health Care Plan (the *"Plan"*) which provides for post-retirement health benefits for its eligible employees, their spouses, and eligible dependents and the Plan.

Passive portfolio management – The process of managing a portfolio in a manner to match the return of the risk-appropriate benchmark either by sampling techniques or by matching the holdings of the benchmark.

Prudent Person - The fiduciary responsibility to discharge one's duties to the Trust solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar characteristics and aims.

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors to act in accord with the "Prudent Person" guidelines relating to investment practices.

Risk – The measurable probability of losing (or not gaining) value. Risk is measured by standard deviation.

Separate Account - A privately managed investment portfolio opened by the client, which holds actual underlying securities. Fees are usually lower than any other investment vehicle, but minimum investments are typically much higher. Separate accounts are used mainly by large plans, while medium and small plans generally use commingled funds and/or mutual funds. Liquidity is subject to the underlying securities' settlement dates.

Small Cap – All publicly traded domestic equity excluding the largest 1000 companies as measured by market capitalization, typically below $2 billion.

Standard Deviation – The statistical calculation which measures the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. It is the square root of variance.

Trustee – The Board of Commissioners of the Metropolitan Water Reclamation District of Greater Chicago.

Value Style – Companies that may be out of favor with investors due to recent business results, slow growth, industry maturity, etc. Typically they will display lower P/E ratios, lower price-to-book ratios, lower earnings growth, and higher dividend yields.

Volatility – The size and frequency of movement in the price or value of an investment.

APPENDIX 2: Asset Class and Benchmark Indices Definitions

FIXED INCOME ASSET CLASSES		
Class	**Definition**	**Benchmark Indices**
Domestic Fixed Income		
Domestic Bonds	Investment grade bonds issued by United States government and corporate issuers.	Barclays Capital U.S. Aggregate Index
EQUITY ASSET CLASSES		
Class	**Definition**	**Benchmark Indices**
Domestic Equities		
Large Cap Core (Blend)	Domestic equities of large capitalization corporations.	Russell 1000, S&P 500
Mid Cap Core (Blend)	Domestic equities of mid capitalization corporations.	Russell Mid Cap, S&P 400
Small Cap Core (Blend)	Domestic equities of small capitalization corporations.	Russell 2000, S&P Small Cap 600
International Equities		
Global Low Volatility	Global equities of large, mid and small capitalization corporations.	MSCI ACWI Minimum Volatility Index
International Core Equities (Developed Markets)	International equities of large capitalization corporations.	MSCI EAFE, MSCI ACWI ex USA

APPENDIX 3: Benchmark Details

Domestic Fixed Income

Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Domestic Equities

Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500 Index measures the performance of the large-cap core segment of the U.S. equity universe. It includes the largest 500 companies based off market capitalization.

Russell 1000 Value measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and higher dividend yield.

Russell Mid-Cap Index measures the performance of the mid-cap core segment of the U.S equity universe. The index is comprised of approximately 800 U.S. companies with market capitalization between $2 billion and $10 billion.

Russell 2000 Index measures the performance of the small-cap core segment of the U.S. equity universe. The index is comprised of approximately 2000 U.S. companies with market capitalization between $300 million and $2 billion.

CRSP U.S Small Cap Index measures the performance of the small-cap segment of the U.S. equity universe. The CRSP U.S. Small Cap Index includes approximately 1,400 of the smallest securities based on a combination of their market cap and current index membership.

International Equities

MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. As of September 2018 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI ACWI ex USA Index (All Country World Index) is a market capitalization weighted index designed to provide a broad measure of stock performance throughout the world, with the exception of U.S. based companies. The index includes both developed and emerging markets. As of September 2018, it captures large and mid-cap representation across 22 of 23 Developed Markets countries and 24 Emerging Markets countries.

MSCI ACWI Minimum Volatility Index aims to optimize the MSCI All Country World Index for the lowest absolute risk applied to large and mid-cap equities across 23 Developed Markets and 23 Emerging Markets countries.