

LYCOMING COUNTY EMPLOYEES' RETIREMENT SYSTEM INVESTMENT POLICY STATEMENT

Approved May 16, 2019

1. MISSION STATEMENT

The purpose of this Statement of Investment Policy is to assist the Board of the Lycoming County Employees' Retirement System ("Fund") in their efforts to effectively supervise and monitor the investment of the assets of the Pension Fund ("Fund") by memorializing the considerable efforts made by the Board in the development of an appropriate program of investments and attests to the Board members' recognition of their fiduciary responsibilities.

This statement provides guidelines for the management of the Fund's assets and places controls on the level of risk, thereby contributing to the expectation that assets will be managed in accordance with stated objectives and the operating parameters of the Fund.

This statement sets forth an investment structure for managing assets and describes the role and expectations of each Investment Manager.

This statement enhances the level of communications between the Fund and those investment professionals assisting in this effort and ensures that all parties are fully informed concerning the objectives and operating parameters of the Fund.

The guidelines and objectives provided herein complement, but do not supersede, those contained in any applicable ordinances or statutes.

2. INVESTMENT PHILOSOPHY

The Board recognizes that volatility and credit risks are pervasive elements of the capital markets. Consequently, to mitigate the uncertainty of achieving the Fund's long-term objectives, the Board supports the prudent strategy of a well-diversified portfolio by asset class and investment managers.

3. FUND OBJECTIVES

The overall objective is to provide long-term retirement benefits to the Fund's participants.

The Board seeks to create a well-diversified and balanced portfolio of appropriate equity, fixed income, money market, and other securities. Moreover, this portfolio should provide sufficient liquidity to pay obligations and other cash-flow requirements. The Board has determined that one or more outside investment managers and an independent investment consultant shall be retained to assure that all investments are managed in both a prudent and professional manner and in compliance with the stated investment guidelines.

The Board recognizes that since the obligations of the Fund are long-term, the investment policy should be made with a view toward performance and return over a number of years. The investment objective, then, is to obtain a reasonable positive total rate of return (after inflation) - defined as interest and dividend income plus realized and unrealized capital gains and/or losses which exceed the actuarial interest rate assumption over rolling 3 to 5 year periods, and is commensurate with the Prudent Investor Rule and any other applicable statutes.

Reasonable consistency of return and protection of assets against the inroads of inflation are paramount. However, the volatility of interest rates and securities markets make it necessary to judge results within the context of several years rather than over short periods of one or two years or fewer. Risk shall be managed and controlled primarily through diversification of the investment portfolios.

4. INVESTMENT AND FIDUCIARY STANDARDS

Although not governed by ERISA, the Fund has adopted the prudent man standard of care as the standard to be applied in the management of the Fund's investment portfolio. The Board and all of its agents shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974 at 29 U.S.C. paragraph 1104 (a) (1) (A)-(C), set forth below. In addition thereto, the Board is governed by 16 P.S. 11651 *et seq.* (County Pension Law) and 53 P.S. 881.101 *et seq.* (Municipal Retirement Law).

Section 1104 – Fiduciary duties

D. Prudent Man Standard of Care

- 1) Subject to Sections 1103 (c) and (d), 1342 and 1344 of the title, a fiduciary shall discharge his duties with respect to a Fund solely in the interest of the participants and beneficiaries and –
 - (A) for the exclusive purpose of
 1. providing benefits to participants and their beneficiaries; and
 2. defraying reasonable expenses of administering the Fund;
 - (B) with the 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 like aims;
 - (C) by diversifying the investments of the Fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

5. ASSET ALLOCATION OBJECTIVES

Working with analyses of their investment consultant and based on data provided by the Fund's actuaries, the Board has determined that the following target asset allocation (at market valuation) provides appropriate risk-adjusted return potential and significant diversification for the Fund:

Asset Class	Target	Range
Large Cap Value Equities	15%	15% to 25%
Large Cap Growth Equities	15%	10% to 20%
Small/Mid Cap Equities	30%	25% to 35%
Int'l and Emerging Mkts Equities	10%	7% to 13%
Fixed Income Securities	15%	10% to 20%
Real Estate Investments	10%	7% to 13%
Private Equity Investments	5%	3% to 7%
Tactical Investments	0%	0% to 5%

The investment principles for utilizing each asset class are as follows:

- Domestic large cap equities offer opportunities for long-term growth and can provide the Fund with excellent risk-adjusted returns and liquidity.
- Investments in smaller capitalization equities, while typically more volatile, offer even greater opportunities long-term growth in the Fund's assets.
- Exposure to both the established and emerging international equity markets provides not only excellent opportunities for long-term growth but additionally provides risk-reducing diversification to the Fund's domestic equity returns.
- The primary objectives of the fixed-income commitment are consistent and dependable cash flows and stabilizing diversification and to the Fund.
- Real Estate investments are used to supplement and augment the returns available from the fixed-income portion of the Fund.
- Private Equity (diversified funds of non-publically-traded equity investments) are designed provide enhanced longer-term returns within the Fund's equity allocation.
- Tactical investments provide diversifying opportunities into MLPs (Master Limited Partnerships) and other energy-related securities.

Notwithstanding the foregoing, the Board may distribute assets from/into any asset class and/or manager and may reinvest income at its sole discretion and may designate authority to appropriate parties to effect and implement any said changes. The investment consultant will notify the Board when allocations need to be reviewed and/or rebalanced.

The Board shall review its asset allocation assumptions bi-annually but may choose to address allocation matters more frequently.

6. PROHIBITED/RESTRICTED VEHICLES:

The following investments/securities/transactions are specifically prohibited except as permitted with prior written approval by the Board:

- Investments in interest only or principal only CMOs
- Interest rate swaps, primes, scores or other similar products
- Precious metals and/or other commodities
- Limited partnerships
- Futures contracts including: forwards, futures options, warrants, hedging, or structured investments which display derivative like characteristics
- Exchange traded funds (ETF's) shall not exceed 5% of the total fund's market value
- Direct investment in repurchase agreements
- Options contracts
- Trading on margin
- Short selling
- Unregistered or restricted stocks

7. RESPONSIBILITIES OF INVESTMENT MANAGERS

The Board has engaged various investment professionals and delegated to each responsibility for the management of specified assets of the Fund.

The investment managers shall discharge their responsibilities in the same manner as if the Fund were governed by the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Although the Fund's Board acknowledges that ERISA does not apply to the Fund as a governmental fund, it hereby imposes the fiduciary provisions of ERISA upon each investment manager, whose performance shall conform to the statutory provisions, rules, regulations, interpretations and case law of ERISA. Each investment manager shall acknowledge, in writing, that it is a named fiduciary of the Fund.

Each investment manager is expected to provide any reasonable information requested by the Board. At a minimum, each manager shall provide a quarterly report detailing their investment activity, the portfolio's current value and any changes in investment philosophy or strategy. Each investment manager is expected to meet with the Board or their designated representatives periodically to review investment performance and philosophy.

Unless otherwise provided by the Fund's custodian, each investment manager will monitor portfolio activity to minimize un-invested cash balances.

Each investment manager shall be responsible only for those assets under its management.

It will be the responsibility of each investment manager to review the monthly valuations provided by the Fund's custodian and to note, in writing, any significant discrepancies from the valuations provided in its own reports.

8. RESPONSIBILITIES OF CONSULTANT, ACTUARY, COUNSEL AND CUSTODIAN.

The Board has additionally engaged the services of professionals in complementary disciplines to assist in the overall administrative management of the Fund.

- A. Responsibilities of the Fund's investment consultant include, but are not limited to, independent performance measurement of the investment managers, monitoring their compliance with the investment guidelines noted herein, recommendations regarding asset mix and manager changes and assistance in investment education. The consultant's quarterly reports of the Fund's investment activities shall be public records and shall be submitted to the Board as required by law.
- B. Responsibilities of the Fund's actuary include, but are not limited to, the recommendations for all actuarial-related assumptions that impact funding, the rendering and certifying of annual actuarial reports, periodic studies that forecast the funding impact of benefit formula changes and general actuarial education to the Board. The actuary shall also inform the Board of any industry trends (including, but not limited to, actuarial interest rate assumptions and market value smoothing formula) that may bear on the Fund.
- C. Responsibilities of the Fund's legal counsel shall include, but are not limited to, the review of all investment manager contracts to ensure protection of the legal interests of the Fund. The investment consultant shall advise Counsel of any deviation from the investment policy. Counsel will then advise as to the legal ramifications of the manager's action.
- D. Responsibilities of the Funds third-party custodian include, but are not limited to, the physical custody of the Fund's assets. All securities shall be designated as assets of the Fund and no withdrawal of securities, in whole or in part, shall be made from their safekeeping except by an authorized member of the Board or the Board's designee. Security transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.
- E. The Fund's Class Action Monitoring Service firms shall be responsible for advising the Fund of any securities litigation affecting the Fund's assets.

9. INVESTMENT PERFORMANCE OBJECTIVES

The Board recognizes the necessity of a long-term horizon when formulating investment policies and strategies. However, shorter-term investment goals have been established and are intended to provide quantifiable benchmarks to measure and evaluate portfolio return and risk.

An integral component of this Investment Policy Statement is attachment Addendum 1 which provides performance benchmarks for investment managers of the various asset classes.

A. Total Fund

- The performance of the total fund will be measured over rolling 3 to 5 year investment horizons. These periods are considered sufficient to accommodate the market cycles experienced with investments.
- On an absolute basis, it is expected that the total return [net of manager fees] of the combined equity, fixed income and cash portfolio, will equal or exceed the actuarial assumed interest rate (currently 7.00%) over the stated 3 to 5 year horizon. The applicable return is to be net of manager fees.
- On a relative basis, it is expected that the total return of combined portfolio will be above median when compared within a universe of similarly allocated funds over the above-stated investment horizon.

B. Publically-Traded Equity and/or Fixed-Income Portfolios

Investment managers are expected to meet or exceed the returns of their respective indices (See attached Addendum 1) and rank at or above median in a universe of similar style managers over 3 to 5 year investment horizons.

C. Real Estate

Real Estate managers are expected to meet or exceed the returns of their designated benchmark (see attached Addendum 1) and provide the Fund with incremental cash flow and principle growth.

D. Private Equity

As an offset to the limited liquidity of such investments the Fund expects their Private Equity managers to capture longer-term returns in excess of those available from conventional equities.

10. TURNOVER

The Board acknowledges that in the course of time investment conditions and opportunities will require that the investment adviser buy and sell securities on the Fund's behalf. While the Board does not wish to inhibit the normal transactions executed by the managers, they do wish to avoid any "churning" of portfolio holdings. Consequently, managers are required to advise the Board of any high levels of turnover and provide justification for such activity.

11. BROKERAGE & COMMISSIONS

Transactions shall be done on a competitive, "best execution" basis. Brokerage transactions should not be directed to any firm if in so doing, and taking all factors into account, the Fund will incur a disadvantage with respect to the market price of the security. Notwithstanding the foregoing, the Board reserves the right to direct any or all of the brokerage commissions associated with the portfolio for the purposes of securing research and related services for the benefit of the Fund and its beneficiaries.

12. COMMUNICATIONS and REPORTING

CUSTODIAN:

- a) The custodian shall supply monthly accounting statements that will include a summary of all receipts and disbursements and the cost and the market value of all assets.
- b) The custodian will forward all proxies to the investment manager on a timely manner.

INVESTMENT MANAGERS:

- a) The investment manager shall provide immediate notice to the Board and the Fund's investment consultant of any significant event such as:
 - a. Death, resignation, termination or incapacity of any senior personnel
 - b. Change of ownership
 - c. Loss of significant business
 - d. Any other event that might impact management of the Fund's assets
- b) The manager will provide immediate notice to the Board of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in these guidelines.
- c) On a quarterly basis, each investment manager shall provide a written report to the investment consultant affirming compliance with stated security restrictions and provide a summary of diversification and attendant schedules.
- d) The investment manager will promptly disclose to the Board, Staff and/or Investment Consultant any securities that are not in compliance with guidelines. (If securities, when purchased, complied with guidelines, but subsequently were downgraded while

held, the investment manager will dispose of such securities at the earliest prudent time.) Additionally, in each quarterly report manager will list all securities held at the end of said quarter that are not in compliance with guidelines.

- e) The manager shall deliver each quarter a report detailing the Fund's quarterly and cumulative performance, adherence to the investment policy, attribution of the latest quarter's performance, forecast of the market and economy (if the manager normally makes such forecasts), portfolio analysis and characteristics and current assets of the portfolio.
- f) Written reports, when applicable, shall be delivered to the Board within 60 days of the end of the quarter. Personal presentations to the Board of Board may be periodically scheduled.
- g) The investment manager's quarterly report will list separately any security whose value has diminished 25% from the prior quarter-end. The listing should contain the specific percent decline for each such stock and rationale for continuing to hold.
- h) Equity managers shall report to the Board on an annual basis with respect to proxies, presenting the issues, votes and dates, and written explanations for all proxies not voted.

INVESTMENT CONSULTANT:

- a) The Investment Consultant shall prepare and publish a comprehensive performance report on behalf of the Fund and present same to the Board and/or Staff, as appropriate, at least quarterly.

The investment consultant (and any other appropriate outside consultants) will meet with the Board and/or Staff on a quarterly basis to review and discuss the Performance Report, performance results, economic outlook, investment strategy and tactics, and other pertinent matters affecting the Fund.

13. CRITERIA FOR INVESTMENT MANAGER REVIEW

- a) The Board adopts the following standards for evaluating the ongoing performance of an investment manager. If, at any time, any one of the following occurs, the investment manager will be warned of the Board's serious concern.
 - i. Loss by the manager of any senior investment personnel.
 - ii. Any change in basic investment philosophy by the manager.
 - iii. Failure to comply with stated guidelines, objectives and/or restrictions enumerated herein.
- b) Independent of the above criteria, the Board may discharge a manager for any reason or no reason provided that the reasonable notice provisions of the particular manager's

contract are observed.

14. REVIEW OF INVESTMENT POLICY STATEMENT

The Board will review this IPS at least bi-annually.

15. INTERNAL CONTROLS

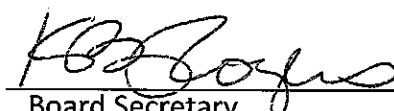
The Board shall retain an independent Certified Public Accountant as part of the County's Annual Single Audit.

16. SUMMARY

This Investment Policy Statement and the attendant guidelines represent the collective efforts of the Fund's Board and staff together with their professional advisors. This document can and should be modified as conditions dictate, and all parties are encouraged to offer suggestions and amendments, as appropriate, to ensure that the Fund's beneficiaries are well served by this cooperative effort.


Signature 
Board Chairman

Date May 16 2019

Signature 
Board Secretary

Date May 16 2019

APPROVED AS TO FORM AND CONTENT:

Signature 
Legal Counsel

Date 5/16/19

LYCOMING COUNTY EMPLOYEES' RETIREMENT SYSTEM INVESTMENT POLICY STATEMENT

Addendum 1 Manager Styles and Respective Indices

Domestic Equity:

- Large Cap Value Managers - Russell 1000 Value Index
- Large Cap Growth Managers - Russell 1000 Growth Index
- Small Cap Equity Managers – Russell 2000 Index
- Mid Cap Equity Managers – Russell Mid Cap Index

International Equity:

International Equity Manager – MSCI ACWI ex US Index
Emerging Markets Equity Manager – MSCI EM Index

Fixed Income:

Domestic Government/Corporate Manager – Barclays Aggregate Index

Real Estate:

The overall return objective of the Fund's real estate commitment is to outperform the NCREIF ODCE index net of all fees.

Private Equity:

Cambridge US Private Equity Index

Tactical Allocation:

Hedge Fund Research Index – Fund of Funds (HFRI FOF) benchmark