Hometown People. Hometown Power.

FINANCE COMMITTEE MEETING
AGENDA

May 15, 2018
6:00 p.m.—1201 S. Washington Ave.
Lansing, MI — REO Town Depot
Board of Water & Light Headquarters

Call to Order

Roll Call

Public Comments on Agenda Items

1. Finance Committee Meeting Minutes of March 13, 2018....................................**TAB 1**

2. March YTD Financial Summary ....**TAB 2**

3. Cash Reserve Policy & Resolution...**TAB 3**

4. FY 2019-2024 Budget & Forecast Presentation & Resolution...............................**TAB 4**

5. Capital Exceedance Resolution ....**TAB 5**

6. Internal Audit Open Management Response Quarterly Report...............................**TAB 6**

7. Revised Investment Policy Statements & Resolution..**TAB 7**
   a. Statement of Investment Policies, Procedures and Objectives Defined Benefit (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. Revised DB and VEBA Investment Policy Statements Resolution

Other

Adjourn

FINANCE COMMITTEE
Meeting Minutes
March 13, 2018

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, on Tuesday, March 13, 2018.

Finance Committee Chair Ken Ross called the meeting to order at 5:00 pm and asked that roll be taken.

Present: Commissioners Ken Ross, Beth Graham, Dennis Louney, and David Price. Also present: Commissioners Anthony Mullen, and Sandra Zerkle, and Non-Voting Commissioners Bill Long (Delta Township), Douglas Jester (East Lansing) (arrived at 5:30 pm), and Brian Ross (DeWitt Township) (arrived at 5:17 pm).

The Corporate Secretary declared a quorum.

Public Comments

Steve Claywell, President of Michigan Building and Construction Trades Council, spoke in support of BWL's vision and infrastructure project and meeting the needs of the community.

Approval of Minutes

Motion by Commissioner Price, Seconded by Commissioner Graham, to approve the Finance Committee meeting minutes of January 9, 2018.

Action: Motion Carried.

Tax Reform Update

Heather Shawa, Chief Financial Officer, introduced Scott Taylor, Finance Manager, who presented the potential impacts of the Tax Cuts and Jobs Act. Mr. Taylor spoke about how the tax reform affects the BWL with the preserved ability to issue tax exempt bonds, the elimination of tax exempt advanced refunding, the reduction to income tax rates, charitable donations, retirement plans, and employee payroll.

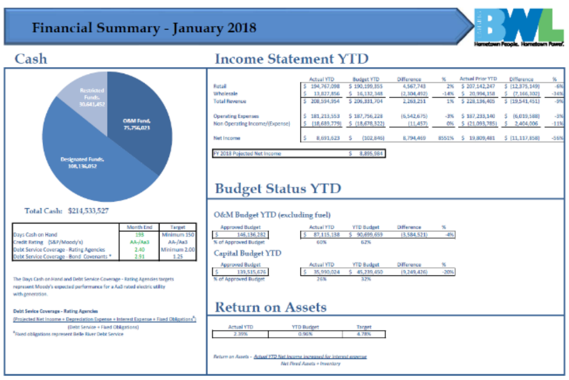
Commissioner Price asked if Pennies for Power donations would be affected due to rate payers' tax rates. Ms. Shawa responded that Pennies for Power collects about $55,000 total per year but individually the amounts are smaller, and typically customers utilize the round-up method vs the one-time donation.

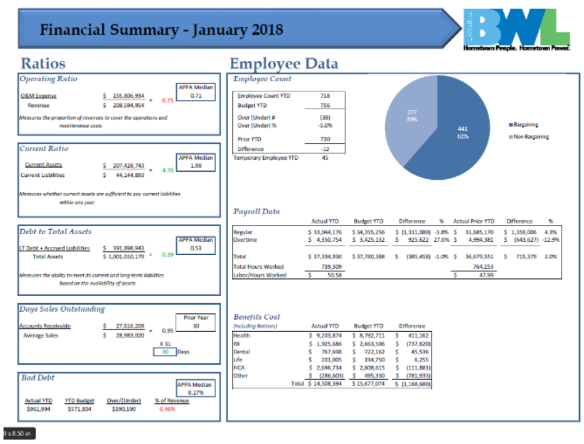
FY19 O&M and Capital Budget Overview/Budget Timeline

Heather Shawa reported that FY19 O&M and Capital Budget are well underway. The Capital budget is being finalized and executive approval will be obtained. The initial submission of FY19 O&M Budget will be examined with the directors and management team over the next two weeks. The FY19 O&M Budget is to be finalized for executive and General Manager approval by the end of March or beginning of April, and then this budget will be presented at the May Finance Committee meeting. The Six Year Forecast will be issued for acceptance at the May meeting also.

January YTD Financial Summary

Chief Financial Officer (CFO), Heather Shawa presented the following:





Cash balance and metrics remain green and continue to be on track. The first bond interest payment was made on January 1, 2018 which reduced slightly the restricted funds. The Income Statement indicates that the total revenue through January actual is slightly over $208 million compared to budget of $206 million, the Net Income actual exceeds the budget, and the Projected Net Income is at the budgeted amount and on track. The O&M YTD is on track and Capital Spend is slightly under budget but projections are to still spend the capital budget on the projects that will be starting. Three of the five ratios are being met. Temporary employee headcount increased by 12 in the 1st S.T.E.P. program. Payroll data is tracking up on overtime due to holiday costs and an outage.

Revised Travel and Reimbursement Policy

Ms. Shawa introduced Lori Pung, General Accounting Manager, who reviewed the updates for the Revised Travel and Reimbursement Policy. Ms. Pung provided an overview of the following summary and clarification of the revisions.

SUMMARY OF REVISIONS TO BWL'S TRAVEL & REIMBURSEMENT POLICY

The following *substantive* revisions were made to sections of the Policy as follows:

General Guidelines

- Added clarification that the Policy covers overnight and/or out of state travel only.
- Removed language, "They are based on practices employed by many organizations of our size and take into consideration what is considered reasonable and customary. While this Policy does contain expense limits, we challenge all employees Traveler's to use professional judgment when incurring expenses on behalf of the Board of Water & Light ("BWL")."
- Revised language from, "Travelers who use personal funds to facilitate travel arrangements will be reimbursed after the trip occurs and when proper documentation is submitted. Should

reimbursement be requested prior to traveling, the request must be submitted via BWL's Travel Form with proper approval" to, "For conference registration fees, lodging, airfare and transportation, it is recommended these expenses are scheduled in advance and prepaid using a BWL P-Card. A request for advance reimbursement prior to travel is not encouraged, however, these advance requests may be paid via a check request through the Request for Payment option included in BWL's Travel & Reimbursement Form ("Form"), along with submitting receipts electronically to the Accounts Payable Department. Should a traveler use personal funds to pay for travel related expenses incurred while traveling, the traveler may request reimbursement after the trip has occurred. Detailed supporting documentation must be submitted and approved by management along with submitting the Form. "

- Added language, "All travel records shall be maintained in accordance with the Board of Water and Light Records Retention and Disposal Schedule" due to removal of retention requirement from Substantiation section.

Scope

- Added language to clarify individuals not covered under this Policy
    - Commissioners: (excludes Non-Voting Advisory Commissioners)
    - Employees: (excludes independent contractors, contractors through employment agencies, temporary employees, interns and First Step Students)
- Added language to clarify Investment Fiduciary
    - Plan Trustees and Retirement Plan Committee

Approval

- Commissioner, Board Appointee, Investment Fiduciary
    - Revised language from, "Advance approval for all business travel is required by the Board Chair" to "Advance approval for all business travel is required by the Board Chair prior to incurring any expenses. Failure to obtain appropriate approval may result in denial of payment or reimbursement."
- Employee
    - Revised language from, "Advance approval for all business travel is required by the Manager and Director" to "Advance approval for all business travel is required by the Manager and Director prior to incurring any expenses. Failure to obtain appropriate approvals may result in denial of payment or reimbursement."

Transportation

- Commissioner, Board Appointee, Employee, Investment Fiduciary
    - Added, "Baggage fees"
    - Rental Car sub-section, added, "and associated fuel expenses"
    - Taxi, bus subway, etc. sub-section added, "including associated tip up to 20% will be reimbursed"
    - Removed language regarding mileage entry; it is not policy, but rather instructional.

Incidentals

- Commissioner, Board Appointee, Employee, Investment Fiduciary
  - Added new Incidentals section with a $10/day limit. New language states “Incidental expenses or tips given to porters, baggage carriers and hotel staff considered to be reasonable will be reimbursed not to exceed $10 per travel day with a detailed receipt. If a detailed receipt cannot be reasonably obtained, the expenditure must be documented including location, date and a description of the expenditure.”

Substantiation Requirements

- Commissioner, Board Appointee, Employee, Investment Fiduciary
  - Removed Miscellaneous Expenses sub-section altogether which included a $50 limit. Added baggage fees, parking and tolls to Transportation section.
- Employee
  - Changed from, “All expenses must be summarized on BWL’s Travel Form with receipts and submitted for review and approval by next level of management above a supervisor” to, “All expenses must be summarized on the Form and submitted for review and approval by the Traveler’s Manager.”
- Commissioner, Board Appointee, Employee, Investment Fiduciary
  - Added, “Any request submitted beyond 60 days will not reimbursed.”

Commissioner Price requested that an amendment be made to the policy by removing the language “excludes Non-Voting Advisory Commissioners” under the Scope section.

Commissioner Long asked for a clarification on travel expenses being made by P-Card, and whether the removal of the language “excludes Non-Voting Advisory Commissioners” under the Scope section applied to one-year non-voting advisory commissioners. Ms. Pung responded that travel expenses for the commissioners were placed on the Corporate Secretary’s P-Card and that the removal of the language “excludes Non-Voting Advisory Commissioners” applied only to four-year term commissioners. After a brief discussion it was determined that the exclusion should only apply to the 1-year term Commissioner.

Motion by Commissioner Price, Seconded by Commissioner Louney, to accept the Proposed Revised Travel and Reimbursement Policy Resolution with amendment to include 4-year Advisory Commissioners.

Action: Motion Carried

Bond Resolutions

Ms. Shawa presented the funding strategy and Mr. Taylor presented the executive summary of the Fifteenth Supplemental and Amended and Restated Utility System Bond Resolutions. Ms. Shawa stated that the bond resolutions are the next formal step in the process for providing funding for a new plant and other system improvements. Ms. Shawa noted that the work done on the bond resolutions was done in consultation and development with Chris Lover, who serves as BWL’s financial advisor, and his team from Public Financial Management (PFM), and also with

Bill Danhoff and his team from Miller Canfield, who serve as bond counsel. Julia Baker and Chris Dembowsky from Miller Canfield were in attendance at the meeting. Ms. Shawa also noted that the first formal step in the funding process was taken at the last Finance Committee meeting and that the published Notice of Intent started a 45-day referendum period which expired today, March 13, 2018 at 5:00 pm.

Ms. Shawa outlined the following items in the funding strategy:

- Issuing the $500 million fixed rate bonds right away is the simplest but most expensive way as once the bonds are issued the interest starts capitalizing.
- Issuing the fixed rate bond in three phases; issuance of $100 million of bond anticipation notes; issuance of $400 million in fixed rate revenue bonds of which $100 million will be used to pay back the $100 million line of credit and the remainder will be set aside to finance further construction; issuing the remaining $100 million in variable rate bonds

There was dialogue regarding the line of credit in comparison to a fixed rate bond. Mr. Taylor commented that the line of credit is currently estimated to have a 3% interest rate. There was also discussion on interest rates and locking in for a lower rate with the expectancy of increased or raised rates. Mr. Taylor conveyed that the strategy is continually monitored and can be revised if the rates are going to increase.

Mr. Taylor outlined the following items from the Fifteenth Supplemental Resolution which authorizes the CFO to execute phase one of the strategy:

- Authorized up to $100 million of Bond Anticipation Notes to finance cost of the power plant and system improvements.
- Notes can be sold either with a junior lien on the system revenues, or payable only from proceeds of the bonds.

Mr. Taylor outlined the following items from the Amended and Restated Utility System Revenue Bond Resolution which authorizes the CFO to execute phases two and three of the strategy, restates the existing resolution, and amends some provisions:

- Authorizes up to $500,000,000 of new bonds to finance costs of the Power Plant and
- System Improvements described in the Notice of Intent Resolution adopted on January 23, 2018.
- Upon delivery of the new bonds (if at least $300,000,000 is issued), the purchasers of the new bonds will hold over 51% of the principal amount of BWL Bonds, and the new resolution can replace the 1989 Resolution and the 15 Supplements.
- The following provisions for the bond reserve account approved in November 2016 would take immediate effect (instead of after all BWL bonds issued prior to 2016 are paid);
    - Permit separate bond reserve accounts (with different requirements) for each series of bonds;
    - Permit purchase of a surety bond with a rating equal to or higher than the BWL bond rating (the 1989 resolution requires a AAA rating).

- The following are new provisions:
  - Update the "Aggregate Debt Service" provision to remove the very onerous requirement to assume that variable rate bonds bear interest at a 10% interest rate or higher. This is useful because BWL must compare Aggregate Debt Service with system revenues before issuing new bonds.
  - The resolution could be amended without consent of bondholders if the rating agencies confirm that the amendments would not result in the reduction or withdrawal of any rating.

Commissioner Jester inquired about the opportunity costs if there is a need for the Board to make further investments and what are the limits and additional capacity to deal with future needs. General Manager Peffley responded that the new plant with the renewable portfolio will take the BWL through the Eckert and Erickson retirements. The next stage of review will be in 2030 and the debt will have been paid down. Ms. Shawa responded that the Six Year Forecast will be presented in May and rating agencies will look at those metrics. GM Peffley added that the $500 million that is being borrowed is for the new plant and other system and technology project improvements and that ways to reduce costs are still being reviewed.

Motion by Commissioner Louney, Seconded by Commissioner Mullen, to forward for consideration with the recommendation to adopt the Fifteenth Supplemental Bond Resolution as presented to the full Board.

Action: Motion Carried

Motion by Commissioner Price, Seconded by Commissioner Louney, to forward for consideration with the recommendation to adopt the Amended and Restated Utility System Bond Resolution as presented to the full Board.

Action: Motion Carried

Internal Audit Status Report
Internal Auditor Phil Perkins presented the FY 2018 Audit Plan Progress Report and the Proposed Internal Audit Succession Plan.

Internal Audit Status Report

Presented by:
Phil Perkins, Director of Internal Audit
Finance Committee Meeting
March 2018

Overview

- FY 2018 Audit Plan Progress Report
- Proposed Internal Audit Succession Plan

2

FY 2018 Audit Plan Progress Report

Engagements Completed:

1. Water Production Data Reporting Audit (FY 18)
2. Identity & Access Management Audit (FY 17 carryover)
3. Succession Planning Audit (FY 18)
4. Time Reporting Review #1
5. Surprise Cash Count #1

Engagements in Progress:

1. Cash Receipts Audit (FY 18) – 90% complete
2. Customer Arrangements/Third Party Payments Audit (FY 18) - underway
3. Time Reporting Review #2 – in progress
4. Consulting – Payroll/Benefits Internal Controls – in progress

3

FY 2018 Audit Plan Progress Report (2)

Remaining Engagements:

1. Contract Authorization & Approval Process Audit
2. Physical Access Management Audit
3. Surprise Cash Count #2
4. Consulting – Other Areas Affected by Reorganization

Other:

- Risk Assessment & Annual Planning for FY 2019 Audit Plan

4

Proposed Internal Audit Succession Plan

- Plan is to hire experienced senior internal auditor with IT auditing experience by June 30, 2018.
  - This will provide one year of experience, training, etc. for the new employee prior to the incumbent Internal Auditor's planned retirement date.
  - The new hire would have the opportunity to move into the Internal Audit Director's role if performance and desire so warranted.
- As a potential supplement providing targeted IT audit expertise when needed, an RFP will be sent for competitive bids for services starting in FY 2019.

5

Upon conclusion of Mr. Perkin's presentation a discussion followed regarding whether the succession plan was a Human Resources Committee Meeting item or a Finance Committee meeting item. A consensus followed that the succession plan was both a Human Resources and Finance Committee item. After a short discussion regarding this matter It was determined that Mr. Perkins should proceed with the with the hiring process.

Other

None

Adjourn

Motion by Commissioner Price, Seconded by Commissioner Louney, to adjourn the meeting. Commissioner Ross adjourned the meeting at 6:03 p.m.

Respectfully submitted
Ken Ross, Chair
Finance Committee

Financial Summary - March 2018

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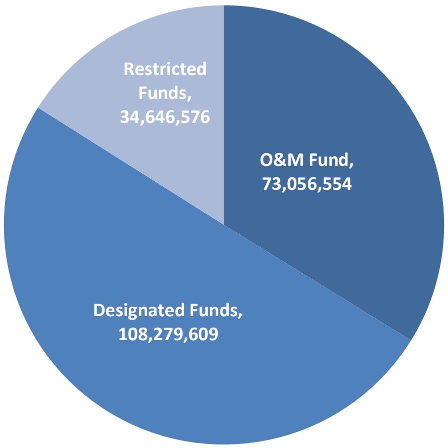
Cash



Total Cash: $215,982,738

	Month End	Target
Days Cash on Hand	190	Minimum 150
Credit Rating (S&P/Moody's)	AA-/Aa3	AA-/Aa3
Debt Service Coverage - Rating Agencies *	2.40	Minimum 2.00
Debt Service Coverage - Bond Covenants	2.91	1.25

The Days Cash on Hand and Debt Service Coverage - Rating Agencies targets represent Moody's expected performance for a Aa3 rated electric utility with generation.

Debt Sevice Coverage - Bond Covenants

$$\frac{\text{Projected Net Income + Depreciation Expense + Interest Expense}}{\text{Debt Service}}$$

*For rating agencies calculation, Belle River debt service is added to both the numerator and denominator

Income Statement YTD

	Actual YTD	Budget YTD	Difference	%	Actual Prior YTD	Difference	%
Retail	$ 247,962,144	$ 246,587,142	1,375,002	1%	$ 260,947,210	$ (12,985,066)	-5%
Wholesale	$ 18,065,321	$ 22,454,926	(4,389,605)	-20%	$ 27,450,852	$ (9,385,531)	-34%
Total Revenue	$ 266,027,465	$ 269,042,068	(3,014,603)	-1%	$ 288,398,062	$ (22,370,597)	-8%
Operating Expenses	$ 232,392,827	$ 240,513,720	(8,120,893)	-3%	$ 240,104,049	$ (7,711,223)	-3%
Non Operating Income/(Expense)	$ (24,024,372)	$ (24,222,537)	198,164	-1%	$ (26,845,471)	$ 2,821,098	-11%
Net Income	$ 9,610,266	$ 4,305,812	5,304,454	323%	$ 21,448,542	$ (11,838,276)	-55%

FY 2018 Pojected Net Income	$ 8,895,984

Budget Status YTD

O&M Budget YTD (excluding fuel)

	Approved Budget	Actual YTD	YTD Budget	Difference	%
	$ 146,136,282	$ 115,829,385	$ 118,117,914	(2,288,529)	-2%
% of Approved Budget		79%	81%		

Capital Budget YTD

	Approved Budget	Actual YTD	YTD Budget	Difference	%
	$ 139,515,676	$ 53,597,185	$ 77,285,242	(23,688,057)	-31%
% of Approved Budget		38%	55%		

Return on Assets

Actual YTD	YTD Budget	Target
2.75%	1.83%	4.78%

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

Financial Summary - March 2018

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Ratios

Operating Ratio

				APPA Median
O&M Expense	$ 199,721,919	=	0.75	0.71
Revenue	$ 266,027,465			

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

Current Ratio

				APPA Median
Current Assets	$ 204,785,018	=	3.94	1.98
Current Liabilities	$ 52,026,180			

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

Debt to Total Assets

				APPA Median
LT Debt + Accrued Liabilities	$ 398,861,533	=	0.40	0.53
Total Assets	$ 1,008,891,412			

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

Days Sales Outstanding

				Prior Year
Accounts Receivable	$ 23,357,401	=	0.83	24
Average Sales	$ 27,997,442			
			X 31	
			26	Days

Bad Debt

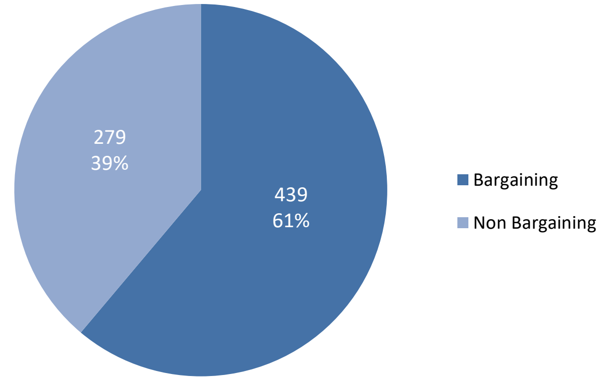
APPA Median 0.27%

Actual YTD	YTD Budget	Over/(Under)	% of Revenue
$1,278,537	$735,176	$543,360	0.48%

Employee Data

Employee Count

Employee Count YTD	718
Budget YTD	771
Over (Under) #	(53)
Over (Under) %	-6.9%
Prior YTD	739
Difference	-21
Temporary Employee YTD	39



Payroll Data

	Actual YTD	Budget YTD	Difference	%	Actual Prior YTD	Difference	%
Regular	$ 44,249,554	$ 45,959,828	$ (1,710,274)	-3.7%	$ 40,433,087	$ 3,816,467	9.4%
Overtime	$ 5,717,037	$ 4,473,334	$ 1,243,703	27.8%	$ 6,330,924	$ (613,887)	-9.7%
Total	$ 49,966,591	$ 50,433,162	$ (466,571)	-0.9%	$ 46,764,011	$ 3,202,580	6.8%
Total Hours Worked	1,008,093				985,120		
Labor/Hours Worked	$ 49.57				$ 47.47		

Benefits Cost

(Including Retirees)

	Actual YTD	Budget YTD	Difference
Health	$ 12,174,428	$ 11,300,259	$ 874,169
RX	$ 2,457,905	$ 3,440,202	$ (982,297)
Dental	$ 1,012,267	$ 928,494	$ 83,773
Life	$ 257,902	$ 251,250	$ 6,652
FICA	$ 3,652,371	$ 3,600,256	$ 52,115
Other	$ (497,082)	$ 750,999	$ (1,248,081)
Total	$ 19,057,791	$ 20,271,461	$ (1,213,669)

Policy Name: Minimum Cash Reserve Requirement
Policy Type: Commission
Policy Number:
Effective Date:

Review/Revision Date(s):
2018-05-22

1. PURPOSE:

BWL's Minimum Cash Reserve Requirement Policy ("Policy") is one of several planning tools used to assure uninterrupted delivery of critical utility services. The Policy guides the organization's operations along a path of continued financial stability. By defining BWL's minimum cash reserve requirement, the Policy bolsters financial strength, situational resilience, fiscal responsibility, and credit quality.

The Policy was compiled using a review of best practices from credit rating agencies, utility experts, and other municipal utilities. Rather than setting a fixed dollar amount, the Policy establishes a methodology for the calculation of a minimum cash reserve requirement. The minimum cash reserve requirement will be recalculated each year and presented to the Board of Commissioners ("Board") during the annual budget and forecast process. The Board is responsible for approving and accepting the forecasted minimum cash reserve requirement as a component of the BWL's budget and forecast. For purposes of this policy, minimum cash reserve includes all unrestricted cash and cash equivalents, including bank deposits and liquid investments, and will be measured in terms of days cash on hand.

The Policy enforces the Board's commitment to financial stability and desire to maintain or improve BWL credit ratings. Since strong credit ratings reduce the cost of borrowing, they are essential to maintaining low customer rates. BWL debt issuance is currently rated by the following agencies:

A. Moody's – Most recent rating of Aa3 with stable outlook on 12/21/2016[1]. This rating indicates an obligation of high quality with very low credit risk.[2]
B. Standard & Poor's – Most recent rating of AA- with stable outlook on 12/21/2016.[3] This rating indicates an investment-grade obligation whose issuer has a very strong capacity to meet financial commitments.[4]

[1] https://www.moodys.com/credit-ratings/Lansing-Board-of-Water-Light-MI-credit-rating-804328059
[2] https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004
[3] https://www.standardandpoors.com/en_US/web/guest/ratings/details/-/instrument-details/sectorCode/PUBFIN/entityId/5086/issueId/1466343
[4] https://www.spratings.com/en_US/understanding-ratings

2. SCOPE:

This policy describes the calculations that determine the minimum cash reserve requirement for each year of the succeeding, six-year forecast period and impacts the budget and forecast process completed by the Chief Financial Officer and approved by the Board of Commissioners.

3. REFERENCES:

Resolution 2018-05-XX

4. RESPONSIBLE AREA:

The Finance & Planning department will be responsible for implementing this policy.

5. POLICY:

The minimum cash reserve requirement is determined using a risk-based calculation of five key cash requirements: Net O&M Expense, Return on Equity to the City, Historical Plant in Service, Debt Service, and Six-Year Net Capital Improvement Plan. Each cash requirement is multiplied by its associated risk factor and summed to determine the minimum cash reserve requirement. This calculation is applied to each of the BWL's four utilities individually and then aggregated to determine the overall BWL minimum cash reserve requirement. Listed below are descriptions of each cash requirement along with the associated risk factor.

1. Net O&M Expense – Net O&M Expense represents total annual operating expenses, excluding depreciation.
    a. The risk factor reflects estimated lag time in the revenue collection cycle.
    b. The risk factor is calculated by dividing the estimated lag time in days by 365 days.
    c. The risk factor for Net O&M Expense is 12.3% (the result of a 45-day lag time ÷ 365 days).
2. Return on Equity to the City ("ROE") – ROE represents the estimated amount to be transferred to the City for a fiscal year.
    a. The risk factor reflects the maximum amount to be transferred at any one time during the fiscal year.
    b. The risk factor for ROE is 50% since the BWL makes semi-annual payments.
3. Historical Plant in Service – Historical Plant in Service represents the full historical cost of BWL's utility plant.
    a. The risk factor is calculated based on the depreciation percentage, or age, of the system by dividing accumulated utility plant depreciation by historical investment.
    b. The risk factor is assumed to be 1.0% where utility plant is less than or equal to 40% depreciated (newer system).
    c. The risk factor is assumed to be 1.5% where utility plant assets are 41%-50% depreciated.
    d. The risk factor is assumed to be 2.0% where utility plant assets are 51%-55% depreciated.
    e. The risk factor is assumed to be 2.5% where utility plant assets are 56%-65% depreciated.
    f. The risk factor is assumed to be 3.0% where utility plant assets are over 65% depreciated (older system).

4. Debt Service – Debt Service represents the BWL's total annual debt service payments (bond principal + bond interest).
    a. The risk factor reflects the BWL's monthly debt service obligation. This risk factor is limited to one month due to the additional reserves and requirements already established for debt service in the form of bond covenants.
    b. The risk factor for Debt Service is 8.3% (the result of 1 month ÷ 12 months).
5. Six-Year Net Capital Improvement Plan – The Six-Year Net Capital Improvement Plan represents the total six-year forecast cost for capital improvements, less any portion to be funded by bond proceeds.
    a. The risk factor reflects the average annual capital improvement cash outlay over the six-year forecast.
    b. The risk factor for Six-Year Net Capital Improvement Plan is 16.7% (the result of 1 year ÷ 6 years)

The Board will annually review the proposed budget and forecast to ensure the minimum cash reserve requirements are met as defined in this Policy.

In the event actual results fall short of the budget to such a degree that the reserve balance falls below the required minimum, consistent with this policy, the Board will require the succeeding year's budget and forecast to include the corrective actions necessary to restore cash reserves to the required level by the end of the next fiscal period.

PROPOSED RESOLUTION

Minimum Cash Reserve Requirement Policy

WHEREAS, the Board of Commissioners (“Board”) is committed to maintaining a financially stable and resilient utility; and

WHEREAS, the Board recognizes that a key element of preserving financial stability over extended periods of time and through varying economic conditions is maintaining adequate cash reserves.

BE IT RESOLVED, that after its review, and based on the recommendation from management, the Board approves the Minimum Cash Reserve Requirement Policy, which clearly defines a risk based methodology for establishing the Board of Water and Light’s minimum cash reserve requirements on an annual basis for each year of the succeeding six-year forecast period.

Budget and Forecast

FY 2019 – 2024

Finance Committee Meeting

May 15, 2018

Board Meeting

May 22, 2018

LANSING BWL

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Overview

- BWL Strategic Objectives
- Key Budget and Forecast Assumptions
- Sales Volume History and Forecast by Utility
- Operating Budget and Forecast
- Capital Budget and Forecast
- Next Steps

- BWL Strategic Objectives
  - Strategy 6: Financial Stability
  - Target Metrics

- Strategy 6 Goal: Maintain the financial stability of the BWL
  - All of the BWL's ongoing efforts and strategic initiatives require funding. The balance between providing this funding and its impact on rates requires a comprehensive financial plan and rate strategy.
- Strategy 6, Objective 1: Practice good financial stewardship
  - 1) Develop a Financial Plan that includes a rate strategy that provides financing for the BWL's capital program and replacement generation needs while maintaining competitive rates
  - 2) Maintain an above average bond rating for municipal utilities
  - 3) Identify cost savings through process improvement initiatives and return on investments with minimal impact on operations or employees
  - 4) Commit to reviewing and consistently achieving targeted rate of return

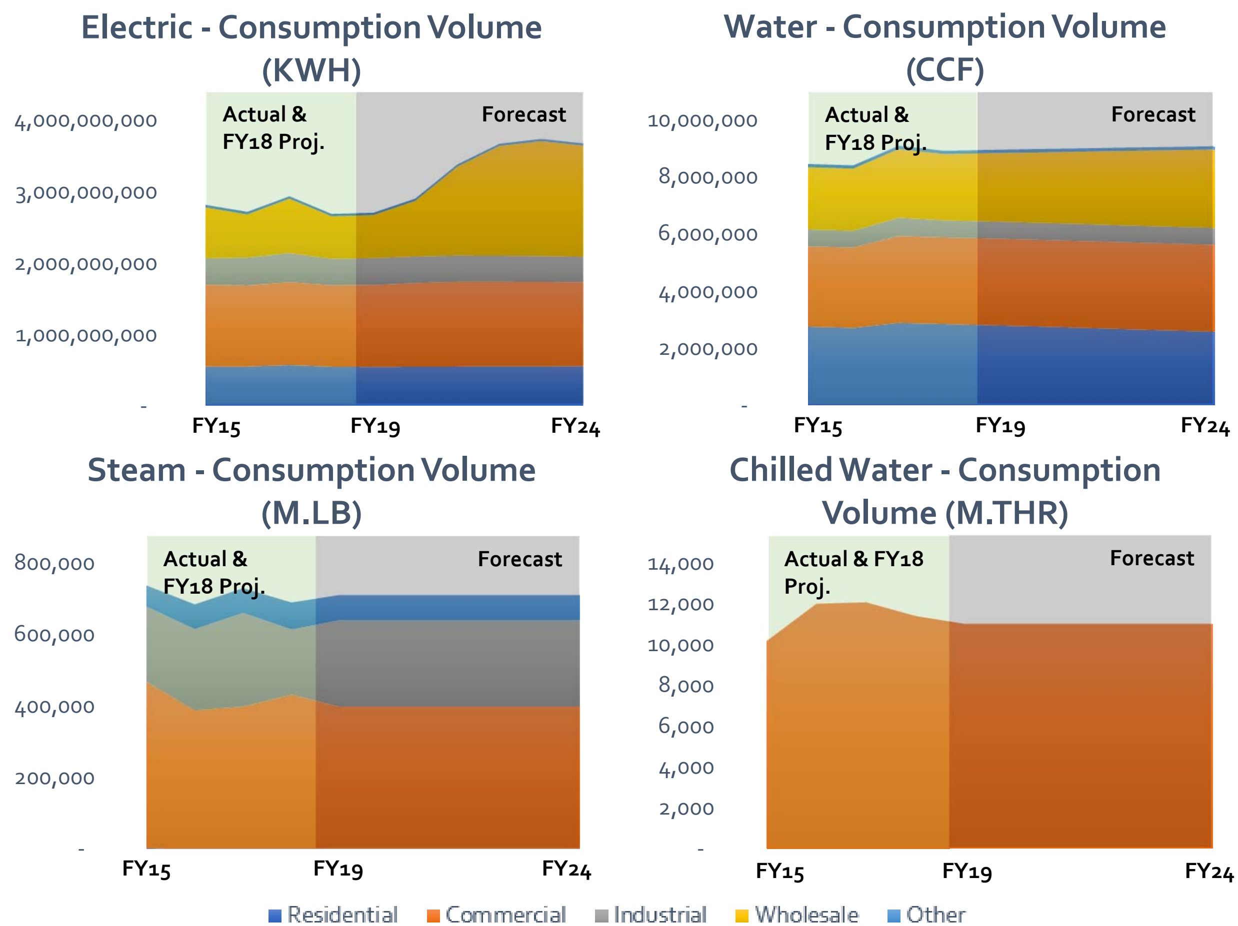
- BWL Strategic Objectives
  - Strategy 6: Financial Stability
  - Target Metrics

- Maintain High Credit Rating
  - The BWL is currently rated AA- by S&P and Aa3 by Moody's
- Ensure Adequate Liquidity
  - The BWL should have the ability to meet near term obligations when due
    - Minimum Cash Reserve Requirement: **155 Days**
    - Debt Service Coverage Minimum Target: **2.00**
- Return on Assets
  - An adequate return on assets is essential to municipal utilities
  - It ensures that current rate payers are not "kicking the can down the road" or deferring cost recovery to future generations
  - An appropriate return on assets recovers two main items:
    - Interest expense
    - Inflationary increase of infrastructure replacement costs
  - Board of Commissioners approved ROA target calculation
    - Return on Assets FY 2019 Target: **4.75%**
- Maintain Rate Competitiveness

- Key Budget and Forecast Assumptions

- All forecast O&M expense increases, excluding fuel, were capped at 2% of the previous fiscal year.
- Eckert transitions from baseload operation to a seasonal capacity resource effective January 2019.
- Total employee count is budgeted at 751 for FY 2019 and declines in each succeeding year.
- Return on Equity to the city remains at 6.1%.
- The new plant is operational in early calendar year 2021.
- Bond interest is capitalized during the plant construction period.
- Major steam customer contract expires October 2022. Forecast assumes contract is renewed.

- Sales Volume History and Forecast by Utility, FY 15-24

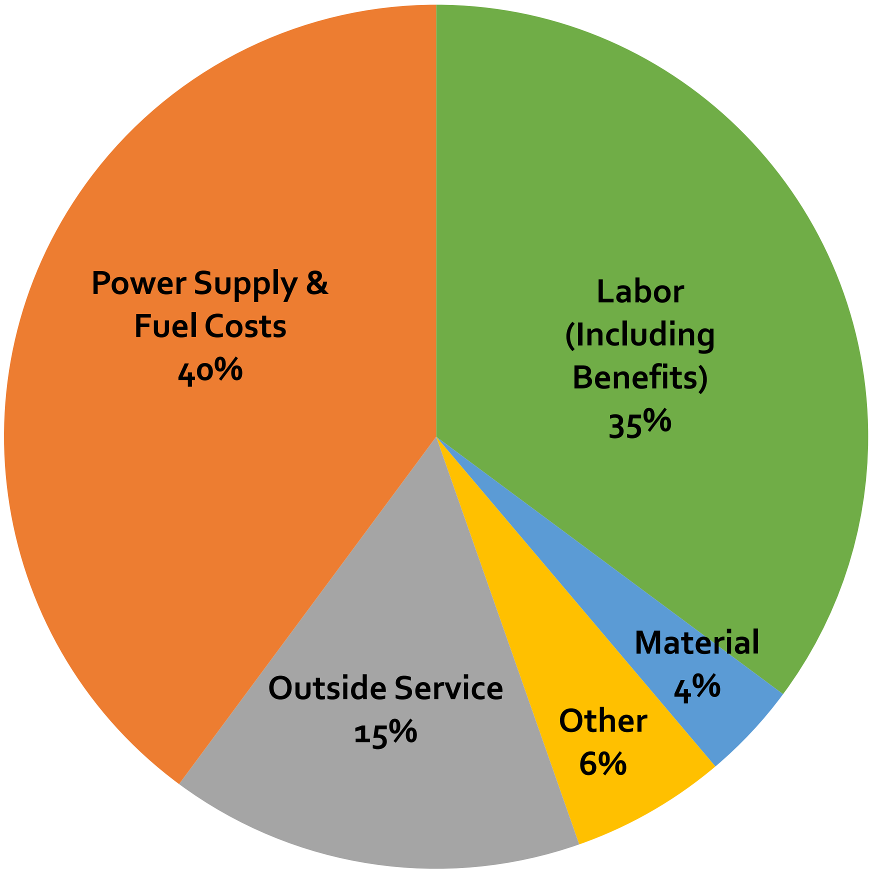


- Operating Budget and Forecast
  - FY 2019 Income Statement
  - FY 2019 Operating Expenses by Category
  - 6-Year Income Statement
  - 6-Year Return on Assets
  - 6-Year Cash Flow

FY 2019 Income Statement	**Electric**	**Water**	**Steam**	**Chilled Water**	**Total**
Sales (MWh, ccf, Mlb, ton-hrs)	2,696,761,053	8,938,944	708,206	10,985	
Operating Revenue					
Residential	$ 84,066,561	$ 17,118,280	$ 15,186	$ -	$ 101,200,027
Commercial	$ 144,344,826	$ 14,499,529	$ 7,076,801	$ 6,008,148	$ 171,929,304
Industrial	$ 41,025,826	$ 2,207,253	$ 3,173,342	$ -	$ 46,406,421
Wholesale	$ 23,369,766	$ 3,816,954	$ -	$ -	$ 27,186,719
Other	$ 12,098,013	$ 6,321,381	$ 1,270,459	$ -	$ 19,689,854
Total Operating Revenue	$ 304,904,991	$ 43,963,398	$ 11,535,789	$ 6,008,148	$ 366,412,325
Operating Expenses					
Fuel and Purchased Power	$ (99,490,673)	$ (5,817,949)	$ (4,190,244)	$ -	$ (109,498,866)
Depreciation	$ (35,109,707)	$ (7,747,189)	$ (3,046,797)	$ (1,530,175)	$ (47,433,868)
Other Operating Expenses	$ (123,880,597)	$ (26,840,705)	$ (3,604,596)	$ (2,393,294)	$ (156,719,192)
Total Operating Expenses	$ (258,480,978)	$ (40,405,842)	$ (10,841,637)	$ (3,923,469)	$ (313,651,927)
Total Operating Income	$ 46,424,013	$ 3,557,555	$ 694,152	$ 2,084,679	$ 52,760,399
Non Operating Income/(Expenses)					
Return on Equity to City	$ (18,064,492)	$ (2,596,104)	$ (687,989)	$ (360,489)	$ (21,709,074)
Interest Expense	$ (15,920,741)	$ (2,297,098)	$ (2,168,255)	$ (610,635)	$ (20,996,729)
Other Non Operating Income/(Expenses)	$ 7,714,721	$ 1,831,162	$ 297,280	$ 203,280	$ 10,046,444
Total Non Operating Income/(Expenses)	$ (26,270,512)	$ (3,062,040)	$ (2,558,963)	$ (767,844)	$ (32,659,359)
Total Net Income/(Loss)	**$ 20,153,501**	**$ 495,515**	**$ (1,864,812)**	**$ 1,316,835**	**$ 20,101,039**
Approved Rate Increase - Effective 02/01/2019	3.0%	7.5%	7.5%	0.0%	
Return on Assets	4.92%	0.79%	-0.06%	7.02%	3.52%
Target Return on Assets	4.75%	4.75%	4.75%	4.75%	4.75%

- Operating Budget and Forecast
  - FY 2019 Income Statement
  - FY 2019 Operating Expenses by Category
  - 6-Year Income Statement
  - 6-Year Return on Assets
  - 6-Year Cash Flow

FY 2019 Operating Expense by Category



- Operating Budget and Forecast
  - FY 2019 Income Statement
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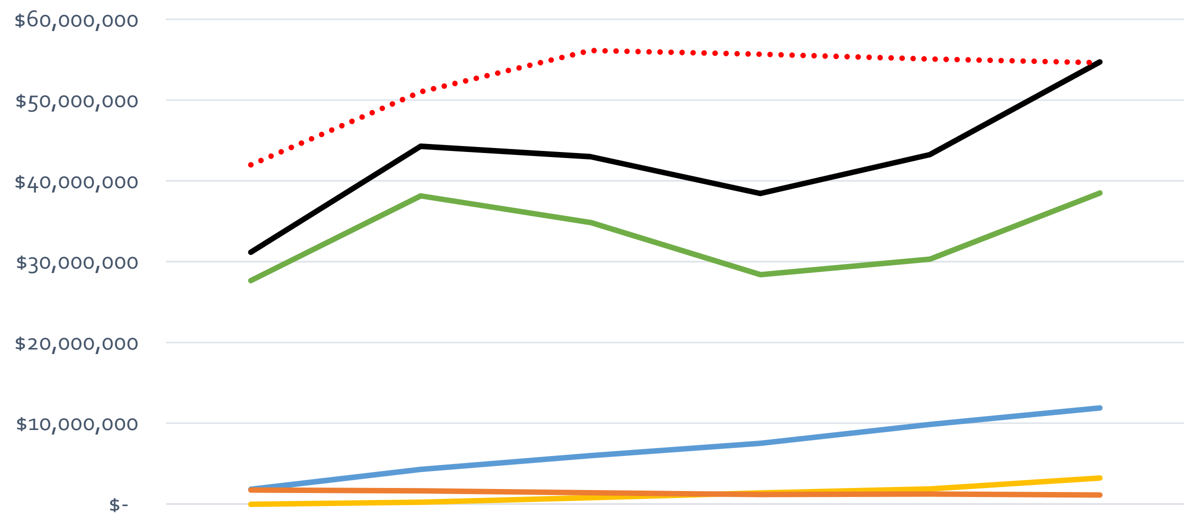
  - 6-Year Return on Assets
  - 6-Year Cash Flow

6-Year Income Statement	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Operating Revenue						
Electric	$ 304,904,991	$ 323,068,743	$ 346,875,902	$ 358,098,806	$ 369,333,178	$ 378,761,748
Water	$ 43,963,398	$ 47,283,613	$ 50,599,209	$ 53,737,132	$ 57,031,874	$ 60,536,418
Steam	$ 11,535,789	$ 12,023,789	$ 12,663,664	$ 13,526,059	$ 14,319,583	$ 15,185,864
Chilled Water	$ 6,008,148	$ 6,029,358	$ 6,049,089	$ 6,110,739	$ 6,140,356	$ 6,169,973
Total Operating Revenue	$ 366,412,325	$ 388,405,503	$ 416,187,863	$ 431,472,737	$ 446,824,992	$ 460,654,003
Operating Expenses						
Fuel and Purchased Power	$ (109,498,866)	$ (117,702,430)	$ (132,369,982)	$ (136,576,812)	$ (141,154,463)	$ (141,841,251)
Depreciation	$ (47,433,868)	$ (49,705,978)	$ (59,274,739)	$ (70,199,084)	$ (72,202,662)	$ (69,795,929)
Other Operating Expenses	$ (156,719,192)	$ (153,828,118)	$ (156,904,696)	$ (160,699,602)	$ (163,743,644)	$ (167,008,511)
Total Operating Expenses	$ (313,651,927)	$ (321,236,525)	$ (348,549,417)	$ (367,475,498)	$ (377,100,768)	$ (378,645,692)
Total Operating Income	$ 52,760,399	$ 67,168,977	$ 67,638,446	$ 63,997,239	$ 69,724,224	$ 82,008,312
Non Operating Income/(Expenses)						
Return on Equity to City	$ (21,709,074)	$ (23,009,018)	$ (24,763,813)	$ (25,676,332)	$ (26,587,627)	$ (27,408,446)
Interest Expense	$ (14,808,499)	$ (12,412,653)	$ (23,197,749)	$ (33,447,373)	$ (33,118,959)	$ (32,025,192)
Other Non Operating Income/(Expenses)	$ 3,858,213	$ 5,690,692	$ 3,889,797	$ 3,564,032	$ 3,573,464	$ 3,583,051
Total Non Operating Income/(Expenses)	$ (32,659,359)	$ (29,730,979)	$ (44,071,764)	$ (55,559,673)	$ (56,133,122)	$ (55,850,587)
Total Net Income	**$ 20,101,039**	**$ 37,437,998**	**$ 23,566,682**	**$ 8,437,566**	**$ 13,591,102**	**$ 26,157,725**

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Return on Assets	3.52%	4.12%	3.63%	3.28%	3.73%	4.75%
Target Return on Assets	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
Debt Service Coverage Ratio	3.81	5.09	3.06	2.47	2.60	2.83
Days Cash on Hand	160	198	185	179	187	204
Minimum Cash Reserve Requirement	155	159	156	154	153	155
Rate Increases	Approved		Forecast			
Electric	3.00%	3.00%	3.24%	3.24%	3.24%	3.24%
Water	7.50%	7.50%	6.06%	6.06%	6.06%	6.06%
Steam	7.50%	7.50%	8.02%	8.02%	8.02%	8.02%
Chilled Water	0.00%	0.00%	0.40%	0.40%	0.40%	0.40%

- Operating Budget and Forecast
  - FY 2019 Income Statement
  - FY 2019 Operating Expenses by Category
  - 6-Year Income Statement
  - **6-Year Return on Assets**
  - 6-Year Cash Flow

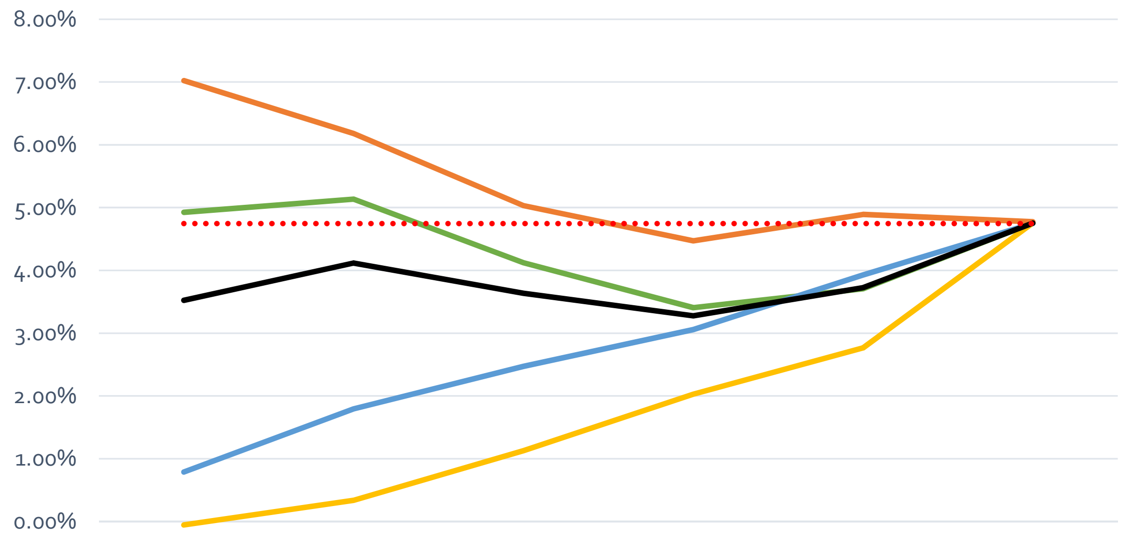
6-Year Return on Assets ($)



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Electric	$27,653,639	$38,152,113	$34,848,909	$28,387,853	$30,321,874	$38,497,911
Water	$1,819,774	$4,272,666	$5,990,618	$7,517,807	$9,842,333	$11,889,603
Steam	$(37,411)	$229,277	$766,855	$1,369,776	$1,865,421	$3,217,997
Chilled Water	$1,733,470	$1,624,013	$1,386,360	$1,163,580	$1,225,078	$1,112,464
Total	$31,169,472	$44,278,068	$42,992,742	$38,439,016	$43,254,706	$54,717,975
Target	$41,982,459	$51,029,700	$56,135,998	$55,667,533	$55,091,349	$54,626,618

- Operating Budget and Forecast
  - FY 2019 Income Statement
  - FY 2019 Operating Expenses by Category
  - 6-Year Income Statement
  - 6-Year Return on Assets
  - 6-Year Cash Flow

6-Year Return on Assets (%)



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Electric	4.92%	5.14%	4.12%	3.41%	3.71%	4.76%
Water	0.79%	1.79%	2.47%	3.06%	3.93%	4.75%
Steam	-0.06%	0.34%	1.13%	2.03%	2.76%	4.76%
Chilled Water	7.02%	6.18%	5.03%	4.47%	4.89%	4.77%
Total	3.52%	4.12%	3.63%	3.28%	3.73%	4.75%
Target	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

- Operating Budget and Forecast
  - FY 2019 Income Statement
  - FY 2019 Operating Expenses by Category
  - 6-Year Income Statement
  - 6-Year Return on Assets
  - **6-Year Cash Flow**

6-Year Cash Flow	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Beginning Cash (O&M & Receiving Fund)	$ 80,000,000	$ 80,861,008	$ 80,214,012	$ 80,687,559	$ 80,041,731	$ 80,852,933
Net Income	$ 20,101,039	$ 37,437,998	$ 23,566,682	$ 8,437,566	$ 13,591,102	$ 26,157,725
Depreciation and Loss on Disposal of Assets	$ 48,521,197	$ 50,793,306	$ 60,362,067	$ 71,286,412	$ 73,289,990	$ 70,883,258
DB and VEBA	$ (3,152,199)	$ (4,936,343)	$ (7,057,848)	$ (6,258,826)	$ (6,058,248)	$ (7,481,184)
Borrowing	$ 415,297,459	$ -	$ 73,570,910	$ -	$ -	$ -
Withdrawal from Reserve for Future Construction	$ 4,000,000	$ (34,000,000)	$ 1,000,000	$ -	$ (11,000,000)	$ (18,000,000)
Commodity Cost Adjustment	$ (275,722)	$ 559,814	$ (4,745,421)	$ 1,994,660	$ 798,843	$ (752,925)
Withdrawal from Bond Construction	$ -	$ 200,969,783	$ 35,052,145	$ -	$ -	$ -
Environmental	$ 25,153	$ 820,724	$ 324,019	$ (483,774)	$ (440,740)	$ (561,000)
Gas Pipeline	$ (32,155,000)	$ -	$ -	$ -	$ 7,000,000	$ 7,000,000
Total Sources of Cash	$ 452,361,928	$ 251,645,283	$ 182,072,554	$ 74,976,038	$ 77,180,948	$ 77,245,874
Principal Payments on Bonds	$ (6,820,000)	$ (7,145,000)	$ (11,430,000)	$ (11,980,000)	$ (12,545,000)	$ (13,145,000)
Principal Payments on Other Debt (CSO)	$ (644,654)	$ (657,988)	$ (666,537)	$ (676,276)	$ (682,233)	$ (693,330)
Capital Expenditures (Excluding New NGCC Plant)	$ (76,468,073)	$ (59,372,820)	$ (73,247,751)	$ (60,327,954)	$ (60,061,748)	$ (60,003,451)
Capital Expenditures for New NGCC Plant	$ (113,122,831)	$ (180,969,783)	$ (93,623,055)	$ -	$ -	$ -
REP/EWR	$ 299,849	$ 208,525	$ (77,346)	$ (409,084)	$ (842,780)	$ (1,169,068)
Reserve & Designated Fund Income & Deposit	$ (254,745,210)	$ (4,355,213)	$ (2,554,318)	$ (2,228,553)	$ (2,237,985)	$ (2,247,572)
Total Uses of Cash	$ (451,500,920)	$ (252,292,279)	$ (181,599,006)	$ (75,621,867)	$ (76,369,745)	$ (77,258,422)
Net Cash Increase (Decrease)	$ 861,008	$ (646,996)	$ 473,547	$ (645,829)	$ 811,203	$ (12,548)
Ending Cash (O&M & Receiving Fund)	**$ 80,861,008**	**$ 80,214,012**	**$ 80,687,559**	**$ 80,041,731**	**$ 80,852,933**	**$ 80,840,385**
Days Cash on Hand	160	198	185	179	187	204
Minimum Cash Reserve Requirement	155	159	156	154	153	155

- Capital Budget and Forecast
  - 6-Year by Utility and Location
  - 6-Year Major Projects
  - 6-Year Minor Projects

6-Year Capital by Utility and Location	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Forecast Total
Utility							
Electric	$ 32,064,391	$ 24,242,093	$ 44,684,727	$ 37,772,928	$ 28,482,912	$ 41,586,739	$ 208,833,790
Water	$ 10,402,000	$ 9,681,800	$ 8,979,300	$ 10,618,200	$ 8,649,100	$ 8,135,000	$ 56,465,400
Steam	$ 8,478,580	$ 2,999,923	$ 2,948,925	$ 2,941,103	$ 2,970,861	$ 3,071,917	$ 23,411,309
Chilled Water	$ 10,230	$ 2,212,062	$ 2,411,513	$ 10,952	$ 11,204	$ 11,204	$ 4,667,165
Common	$ 25,512,872	$ 20,236,942	$ 14,223,286	$ 8,984,771	$ 19,947,671	$ 7,198,591	$ 96,104,133
Capital Budget Excluding New NGCC Plant	$ 76,468,073	$ 59,372,820	$ 73,247,751	$ 60,327,954	$ 60,061,748	$ 60,003,451	$ 389,481,797
New NGCC Plant	$ 113,122,831	$ 180,969,783	$ 93,623,055	$ -	$ -	$ -	$ 387,715,669
Total Capital Budget	**$ 189,590,904**	**$ 240,342,603**	**$ 166,870,806**	**$ 60,327,954**	**$ 60,061,748**	**$ 60,003,451**	**$ 777,197,466**
Location							
Eckert	$ -	$ 148,000	$ -	$ -	$ -	$ -	$ 148,000
Erickson	$ 4,129,667	$ 2,069,349	$ 772,897	$ 861,761	$ 702,492	$ 33,239	$ 8,569,405
REO Plant	$ 5,758,555	$ -	$ -	$ -	$ -	$ -	$ 5,758,555
T&D	$ 34,830,399	$ 29,669,532	$ 50,658,661	$ 41,865,122	$ 37,835,485	$ 52,606,621	$ 247,465,820
Dye/Cedar	$ 3,947,000	$ 4,046,800	$ 2,799,300	$ 4,553,200	$ 1,576,100	$ 165,000	$ 17,087,400
Chiller Plant	$ 122,000	$ 2,201,597	$ 2,400,807	$ -	$ -	$ -	$ 4,724,404
Moore's Park	$ 1,263,580	$ 1,098,600	$ 653,400	$ -	$ -	$ -	$ 3,015,580
New NGCC Plant	$ 113,122,831	$ 180,969,783	$ 93,623,055	$ -	$ -	$ -	$ 387,715,669
Other	$ 26,416,872	$ 20,138,942	$ 15,962,686	$ 13,047,871	$ 19,947,671	$ 7,198,591	$ 102,712,633
Total Capital Budget	**$ 189,590,904**	**$ 240,342,603**	**$ 166,870,806**	**$ 60,327,954**	**$ 60,061,748**	**$ 60,003,451**	**$ 777,197,466**

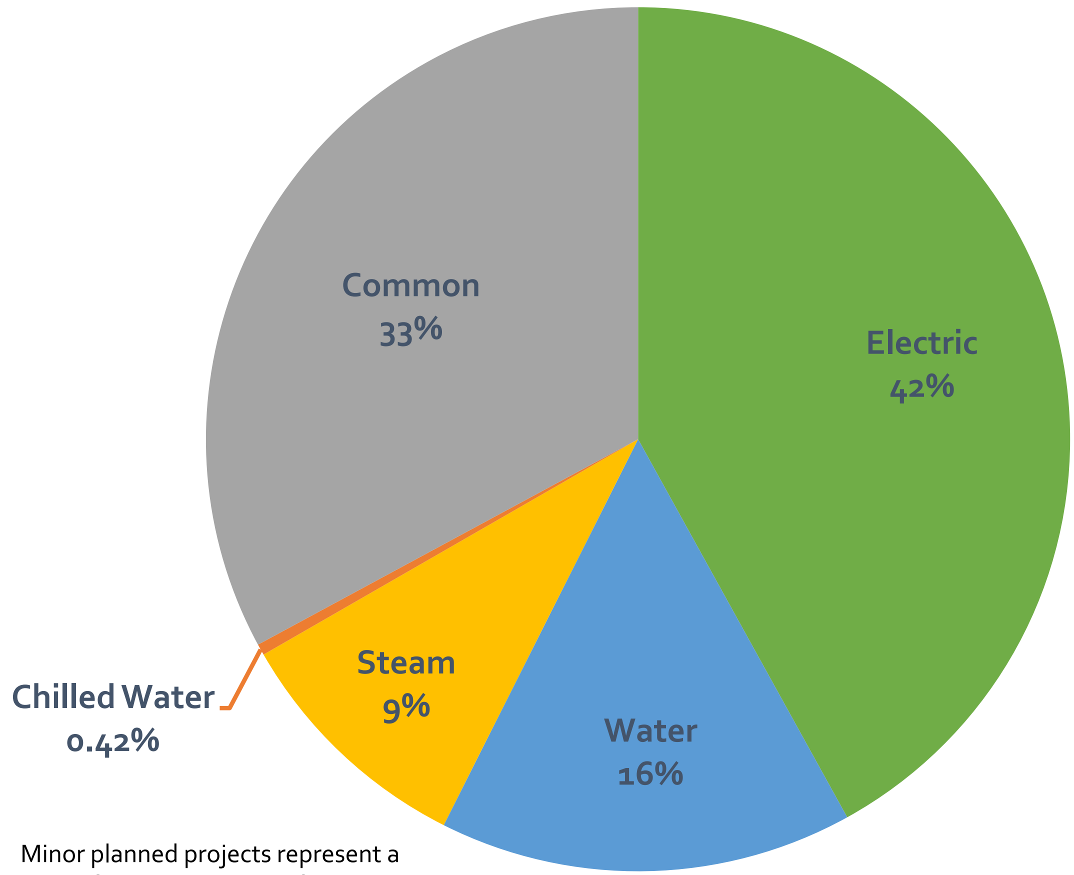
- Capital Budget and Forecast
  - 6-Year by Utility and Location
  - **6-Year Major Projects**
  - 6-Year Minor Projects

6-Year Major Capital Projects	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Forecast Total [4]
Planned Projects							
Stanley Substation - Construct a New 138kV Sub [1]	$ -	$ -	$ -	$ -	$ 4,654,150	$ 22,317,500	$ 26,971,650
Smart Grid Implementation (AMI) [2]	$ 13,766,858	$ 4,475,887	$ -	$ -	$ -	$ -	$ 18,242,745
Customer Information System Replacement [2]	$ 1,000,000	$ 7,000,000	$ 6,000,000	$ -	$ -	$ -	$ 14,000,000
Wise Substation Double Ending [1]	$ 200,000	$ 1,000,000	$ 12,178,000	$ -	$ -	$ -	$ 13,378,000
LGR Substation - Construct a New 138kV Sub [1]	$ 200,000	$ 300,000	$ 8,428,000	$ 3,612,000	$ -	$ -	$ 12,540,000
Rundle (South) Substation - Construct a New 138kV Sub [1]	$ -	$ -	$ 1,350,000	$ 3,799,997	$ 6,000,000	$ -	$ 11,149,997
Rundle (South) Reinforcement [1]	$ 850,000	$ 1,000,000	$ 1,500,000	$ 5,200,000	$ -	$ -	$ 8,550,000
Electric Distribution - Automation Project	$ 500,000	$ 1,250,000	$ 1,250,000	$ 1,250,000	$ 1,250,000	$ 1,500,000	$ 7,000,000
Central Substation [1]	$ 6,445,000	$ -	$ -	$ -	$ -	$ -	$ 6,445,000
REO - CTG Hot Section Replacement	$ 5,000,000	$ -	$ -	$ -	$ -	$ -	$ 5,000,000
Cedar Street - 4160V Sub Cutover and Retirement	$ -	$ 1,206,270	$ 1,206,270	$ 1,206,270	$ 1,206,270	$ -	$ 4,825,080
Peffley Plant - Free Cooling System Seasonal Changeover	$ -	$ 1,761,597	$ 2,400,807	$ -	$ -	$ -	$ 4,162,404
Turbine Overhaul Outage	$ 4,000,000	$ -	$ -	$ -	$ -	$ -	$ 4,000,000
Solar Panel Construction	$ -	$ -	$ 4,000,000	$ -	$ -	$ -	$ 4,000,000
Total Major Planned Projects (Excluding New NGCC Plant)	**$ 31,961,858**	**$ 17,993,754**	**$ 38,313,077**	**$ 15,068,267**	**$ 13,110,420**	**$ 23,817,500**	**$ 140,264,876**
New NGCC Power Plant	$ 113,122,831	$ 180,969,783	$ 93,623,055	$ -	$ -	$ -	$ 387,715,669
Annual Projects [3]							
Electric	$ 11,632,667	$ 11,633,349	$ 11,634,047	$ 11,634,761	$ 11,635,492	$ 11,636,239	$ 69,806,555
Water	$ 6,670,000	$ 5,760,000	$ 6,145,000	$ 6,230,000	$ 7,238,000	$ 8,135,000	$ 40,178,000
Steam	$ 1,420,454	$ 908,423	$ 1,298,464	$ 1,328,944	$ 1,796,674	$ 1,897,730	$ 8,650,689
Chilled Water	$ 10,230	$ 10,465	$ 10,706	$ 10,952	$ 11,204	$ 11,204	$ 64,761
Common	$ 4,339,869	$ 4,063,183	$ 4,123,286	$ 4,184,771	$ 4,247,671	$ 4,283,591	$ 25,242,371
Total Annual Projects	**$ 24,073,220**	**$ 22,375,420**	**$ 23,211,503**	**$ 23,389,428**	**$ 24,929,041**	**$ 25,963,764**	**$ 143,942,376**

1 These projects support the retirement of Eckert.
2 These projects represent 2 of the 5 major BSMART projects.
3 Annual projects have some level of spending each year.
4 The forecast total represents 6 year spending. (Prior Years' spending is not reflected in this total)

- Capital Budget and Forecast
  - 6-Year by Utility and Location
  - 6-Year Major Projects
  - 6-Year Minor Projects

FY 2019-2024 Minor Planned Capital Projects by Utility



Minor planned projects represent a total of $105M , or 43%, of the planned capital projects in the forecast.

- Next Steps

- Finance Committee to accept, as presented, the Operating and Capital Forecast for FY 2019 – 2024 and recommend for Board of Commissioners' approval on May 22, 2018.
- Board of Commissioners to approve, as presented, the FY 2019 annual budget and file with the City Clerk within 10 days of approval.
  - City Charter calls for budget adoption by June 1 and filing with the City Clerk within 10 days of adoption.
- Board of Commissioners to accept, as presented, the Operating and Capital Forecast for FY 2019 – 2024 and submit the Capital Forecast to the Mayor prior to October 1, 2018.
  - City Charter calls for submission of the six year capital improvements plan to the Mayor prior to October 1.

PROPOSED RESOLUTION

Fiscal Year 2019-2024 Budget and Forecast

RESOLVED, that the Annual Operating and Capital Budget covering Fiscal Year 2019 is hereby approved as presented; and

RESOLVED, that the Operating and Capital Forecast for the Fiscal Years 2020-2024 is hereby accepted as presented; and

FURTHER RESOLVED, that the Corporate Secretary be directed to make the appropriate filings with the Lansing City Clerk's office in accordance with the Lansing City Charter regarding the above actions.

Staff Comments:
Staff recommends an operating and maintenance budget of $313.7M and a capital budget of $189.6M for Fiscal Year 2019.

The Operating and Capital Forecast for Fiscal Years 2020-2024 includes potential rate increases in Fiscal Year's 2021-2024. The potential rate increases are for forecast purposes only and have not been approved through a public rate hearing process. The forecast rate increases are subject to revision and, in any case, prior to implementation, must be subject to the BWL's formal rate setting process as per Lansing City Charter, Section 5-205 which refers to the BWL authority to set just and reasonable rates and defines the public hearing process.

In accordance with the provisions of the Lansing City Charter, Article 5, Chapter 2, Section 5-203.5 and Section 5-203.6, staff recommends the Finance Committee approve the budget and forecast for presentation and adoption by the Board at its May 22, 2018 board meeting.

PROPOSED RESOLUTION

Capital Project Budget Exceedance Approval:
Project PG-40045 Corporate IT-Infrastructure Redesign

WHEREAS, Lansing Board of Water & Light's (BWL) Policy 15-02, entitled Capital Project Exceedance Approval necessitates BWL Board of Commission approval for specific capital projects that are expected to exceed their previously approved budget by both 15% and $200,000 prior to completion of the project; and

WHEREAS, the budget for FY 2018 approved by the Commission for Capital Project PG-40045 IT-Infrastructure Redesign was $1,500,000; and

WHEREAS, upon project review it was determined that the entire project cost of $3,900,000 should be captured as capital expenditures versus $2,500,000 of the total budgeted amount was initially accounted for in the FY 2018 operating and maintenance budget; and

WHEREAS, BWL staff and management recommends that the BWL Board of Commissioners approved the Capital Project PG-40045 IT-Infrastructure Redesign to be completed as projected.

BE IT RESOLVED, that the BWL Board of Commissioners approve completion of Capital Project PG-40045 IT-Infrastructure Redesign with a projected final total cost of $3,900,000.

Staff Comments:
BWL staff and management reviewed the project cost and scope in detail, which includes but is not limited to the rationale and circumstances for the increased capital budget projection however the total overall project estimate remains unchanged.

STATUS OF MANAGEMENT RESPONSES TO AUDITS
APRIL 30, 2018

In Accordance with Board Resolution #2014-07-05

Updates in red

Issue #	Audit Name	Issue Description	Date	Responsible Area	Status
46	Performance Evaluation & Compensation	Internal Audit recommended job descriptions be updated.	Jan 2017	Human Resources	Updating of job descriptions is well underway, with estimated project completion by 6/30/19.
47	Performance Evaluation & Compensation	Internal Audit recommended increasing flexibility with awarding merit increases.	Jan 2017	Human Resources	A plan for decoupling base and merit increases is nearing completion. The plan and corresponding instructional information, applicable to the fiscal year 2019 performance management cycle, will be finalized and communicated to management by 7/1/18.
52	COBIT Compliance	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	Of 56 items involved, 42 are being reported as complete, 10 on track, 3 overdue, and 1 ongoing.
58	Succession Planning *NEW*	Internal Audit recommends that Succession Planning procedures be formally approved and updated annually.	March 2018	Human Resources	Annual updates to Succession Planning procedures will be drafted and submitted for executive management approval by 6/30/18.
59	Succession Planning *NEW*	Internal Audit supports identifying critical positions as soon as possible.	March 2018	Human Resources	A focus group is currently piloting a tool to assist with identification of critical positions which will be implemented on an organization-wide basis by 12/31/18.
60	Succession Planning *NEW*	Internal Audit supports training and development of succession candidates.	March 2018	Human Resources	Candidate assessment and development are underway, as part of the BWL Leadership Academy, and will continue through June 2019.

Closed Issues (since March 2018 report):

57	Identity and Access Management	Internal Audit recommends actions continue on as expedited a schedule as possible to fully implement an effective IAM program.	Feb 2018	Information Technology	The following actions have been completed: (1) drafting of IAM operation policy, processes, and procedures; (2) removal of all instances of global server accounts; (3) implementation of an automated system for managing privileged accounts; and (4) deployment of a threat identification system on servers.

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

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Effective May 22~~April 2~~, 2018, except as otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

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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.

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~~7.0% 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.

Target 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 recognize that the transition to the above target allocations will be achieved over an appropriate period of time, based upon manager availability, selection and approval as well as portfolio needs and constraints.

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 either the Policy Index or Target Asset Allocation.

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~~0%

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.~~

Index	Percent
Russell 1000	25%
Russell 2500	10%
MSCI ACWI ex-US	20%
BloomBar US Aggregate	35-40%*
NFI ODCE (net) Index	0-5%*

* An allocation to private real estate has been approved. The policy index will include an allocation to the NFI ODCE (net) Index after the funding of private real estate occurs. The policy index allocation to the BloomBar US Aggregate index will be reduced from 40% with the funding of private real estate.

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.

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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 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

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Effective May 22, 2018, except as
otherwise noted herein

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

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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 7.0% 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.

Target Asset Allocation

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 recognize that the transition to the above target allocations will be achieved over an appropriate period of time, based upon manager availability, selection and approval as well as portfolio needs and constraints.

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 either the Policy Index or Target Asset Allocation.

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 7.0%

2) The Plan's total return should exceed the total return of the Policy index comprised of the following:

Index	Percent
Russell 1000	25%
Russell 2500	10%
MSCI ACWI ex-US	20%
BloomBar US Aggregate	35-40%*
NFI ODCE (net) Index	0-5%*

* An allocation to private real estate has been approved. The policy index will include an allocation to the NFI ODCE (net) Index after the funding of private real estate occurs. The policy index allocation to the BloomBar US Aggregate index will be reduced from 40% with the funding of private real estate.

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 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 May 22~~April 2~~, 2018, except as otherwise noted herein

Post-Retirement Benefit Plan for Eligible Employees of Lansing Board of Water & Light

Statement of Investment Policies, Procedures and Objectives

STATEMENT OF INVESTMENT POLICIES, PROCEDURES AND OBJECTIVES

Table of Contents

Section Page

Introduction

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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.

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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.

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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).

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. 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:

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.

Target 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 recognize that the transition to the above target allocations will be achieved over an appropriate period of time, based upon manager availability, selection and approval as well as portfolio needs and constraints.
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 either the Policy Index or Target Asset Allocation.

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.~~

Index	Percent
Russell 1000	30%
Russell 2500	10%
MSCI ACWI ex-US	20%
BloomBar US Aggregate	25%-40%*
NFI ODCE (net) Index	0-15%*

* An allocation to private real estate has been approved. The policy index will include an allocation to the NFI ODCE (net) Index after the funding of private real estate occurs. The policy index allocation to the BloomBar US Aggregate index will be reduced from 40% with the funding of private real estate.

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.

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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 May 22, 2018, 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

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

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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:

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.

Target Asset Allocation

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 recognize that the transition to the above target allocations will be achieved over an appropriate period of time, based upon manager availability, selection and approval as well as portfolio needs and constraints.

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 either the Policy Index or Target Asset Allocation.

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:

Index	Percent
Russell 1000	30%
Russell 2500	10%
MSCI ACWI ex-US	20%
BloomBar US Aggregate	25%-40%*
NFI ODCE (net) Index	0-15%*

* An allocation to private real estate has been approved. The policy index will include an allocation to the NFI ODCE (net) Index after the funding of private real estate occurs. The policy index allocation to the BloomBar US Aggregate index will be reduced from 40% with the funding of private real estate.

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 2018-_____

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, established by the Sponsor, periodically reviews the target rate of return for each plan and, as the result of its most recent review, recommends the target rate of return for the Defined Benefit Plan be reduced from 7.5% to 7.0%; and

WHERAS, the Retirement Plan Committee also periodically reviews the investment policy statements, formally known as the Statements of Investment Policies, Procedures and Objectives, for each plan and, as the result of its most recent review, recommends revising the policy index of each plan to more precisely represent the respective target asset allocations of each plan; and

WHEREAS, the Retirement Plan Committee along with the General Manager recommends the Sponsor adopt the revisions which reflect these recommendations 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 along with the General Manager, 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.