Montgomery County Employees' Retirement System

Statement of Investment Policy & Objectives

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I) PURPOSE

The purpose of this statement of policies and objectives is to provide a framework for the management of the investment programs of the Montgomery County Employee Retirement Plans ("Plans" or "retirement systems") including the: Employees' Retirement System (ERS), Retirement Savings Plan (RSP) and Deferred Compensation Plan (DCP). The statement outlines the goals and objectives, sets forth investment structures for each of the Plans, and defines the roles and responsibilities of the various entities involved in the investment process. The Board of Investment Trustees (the "Board") adopts this Statement of Investment Policy and Objectives as a guide to the exercise of its powers and duties in overseeing the investment program of the Plans.

The Montgomery County Code ("Code") grants the Board of Investment Trustees ("the Board") the exclusive authority to manage the assets of the Plans and to select investment options that the Board considers prudent subject to the Standard of Care set forth in County Code Section 33-61C as outlined below. Also under Section 33-60, the Board has the authority to delegate its duties. Under the Service Provider Procurement portion of the Governance Manual, the Board delegates to the Executive Director its ability to select investment managers solely for the ERS and enter into or modify contracts for all Plans. The Board also delegates to the Executive Director the ability to terminate ERS investment manager contracts. In addition, the Board has appointed the Executive Director as the directed trustee of the Montgomery County Group Trust.

A fiduciary must discharge the fiduciary's duties regarding the retirement systems:

a. only in the best interest of the participants and their beneficiaries;

b. only to provide benefits to the participants and their beneficiaries, and defray reasonable expenses of administering the retirement systems;

c. with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes;

d. by diversifying the investments of the retirements systems to minimize the risk of large losses, unless it is clearly not prudent to diversify under the circumstances;

e. according to a good faith interpretation of the law governing the retirement systems;

f. according to a good faith interpretation of the documents and instruments governing the retirement systems, if they comply with this Article. (1987 L.M.C., ch. 29, 11; 1998 L.M.C., ch. 27, 1.)

Given the dynamic nature of the investment environment, this statement provides a framework which allows sufficient flexibility in the management and oversight process while setting reasonable parameters to ensure prudence and care in the implementation of the investment programs.

This statement does not restrict or limit the Board from taking any action it deems appropriate. Periodic revisions will be made as deemed necessary to ensure this Statement remains consistent with the Plans' circumstances and with the overall investment and economic environment.

II) ROLES AND RESPONSIBILITIES

A) Key Roles in the Investment Process

1) The Board establishes and maintains broad policies and objectives for all aspects of the Plans. The Board's function is to provide oversight and set policy for the Plans consistent with the authority granted under state and local law. The Board ensures that

appropriate and consistent investment results are achieved on a cost effective basis for its members and beneficiaries while avoiding unacceptable risk levels.

2) The Executive Director has broad authority for managing the day to day operations of the retirement plans. The Executive Director has also been delegated the authority to select and terminate investments solely for the ERS and enter into and modify contracts for all Plans. The investment-related functions are handled by Staff Investment Officers and Analysts with all decisions approved unanimously by the Staff Investment Committee, which is comprised of the Executive Director, Investment Officers, and Analysts.

3) The investment consultants provide expert knowledge and provide advice on the policies related to the investment programs. The consultants act in a fiduciary capacity providing an independent third party perspective and evaluation of the investment programs.

4) The custodian for the defined benefit plan is responsible for maintaining the official book and records, providing performance reports and serving as an additional layer of risk control in the safekeeping of assets of the Plan through monitoring of the portfolio and investment manager guidelines.

5) The recordkeeper for the defined contribution plans is responsible for maintaining the official books and records, providing performance reports, managing plan participant contributions, transfers and withdrawals and providing important disclosures to the Board, including fees and revenue sharing.

6) Investment managers invest assets in accordance with their written guidelines which reflect this statement and other investment-related policies, as appropriate.

B) Tables of Roles and Responsibilities

The tables below summarize the roles and responsibilities of the various parties responsible for management and administration of the Retirement Plans' investment programs. All parties listed below act as fiduciaries to one or more of the retirement plans, with the exception of Board counsel and certain private fund managers. The denotation of "Staff" in the tables refers to the Staff Investment Committee, which is comprised of the Executive Director, Investment Officers, and Analysts.

INVESTMENT POLICY			
ROLE	**BOARD**	**STAFF**	**INDEPENDENT 3RD PARTY**
Determine investment objectives and constraints	Approves	Input	Recommends (consultants)
Conduct asset/liability study, set target asset allocation and ranges	Approves	Input	Recommends (consultants)
Establish alpha risk budget	Approves	Input	Recommends (consultants)
Select benchmarks for performance measurement	Approves	Input	Recommends (consultants)
Establish and modify investment policies	Approves	Recommends	Input (counsel/consultants)
Investment education and research	Required	Input	Input (consultants)

INVESTMENT IMPLEMENTATION			
ROLE	**BOARD**	**STAFF**	**INDEPENDENT 3RD PARTY**
Custodian and consultant selection	Approves	Assist in Evaluation	Input (consultants/counsel)
New strategies and investment vehicles	Approves	Recommends	Recommends (consultants)
Portfolio and asset class structuring	Approves	Recommends	Recommends (consultants)
Manager hiring/terminations	Reviews	Approves (Executive Director)	Recommends (consultants)
Private Funds annual commitment pace	Approves	Recommends	Recommends (consultants)
Establishment of investment guidelines	Monitors/Reviews	Approves (Executive Director)	Input (consultants) Reports (custodian) Input/Adherence (investment managers)
Contract execution and amendments	Reviews	Executes (Executive Director)	Approves legal form (counsel) Reports (counsel) Input (consultants) Input (investment managers)
Use of Outside Legal Counsel	Requests approval from the Office of the County Attorney (OCA)	Recommends	OCA approves & recommends approval to the County Council
Inclusion of investments in the Group Trust	Monitors/Reviews	Approves	Input (consultants)
Execution of rebalancing and liquidity management programs	Monitors/Reviews	Approves	Input (consultants)

EXECUTION OF INVESTMENT MANDATE			
ROLE	**BOARD**	**STAFF**	**INDEPENDENT 3RD PARTY**
Global custody and depository services	Reviews	Reviews	Oversight(custodian)
Securities lending program	Reviews	Reviews	Management (custodian)
Investment Selection/ Portfolio Management	Reviews	Reviews	Management (investment managers)

INVESTMENT MONITORING & REPORTING			
ROLE	**BOARD**	**STAFF**	**INDEPENDENT 3RD PARTY**
Investment manager oversight	Monitors/Reviews	Reports	Reports (consultants/custodian)
Evaluation of investment policy decisions (attribution, risk budgeting)	Monitors/Reviews	Reports	Reports (consultants)
Class Actions	Monitors/Reviews	Reports	Custodian Bank and/or third party vendor monitors and files domestic and international class actions
Securities Litigation	Approves in conjunction with OCA	Recommends	Analysis prepared by the custodian, or third party vendor; Use of outside legal counsel approved by OCA
Monthly investment performance evaluation (overall, sector-level, manager-level)	Monitors/Reviews	Reports	Reports (custodian/investment managers)
Quarterly investment performance evaluation (overall, sector-level, manager-level)	Monitors/Reviews	Reports	Reports (consultants/investment managers)
Peer and benchmark comparison	Monitors/Reviews	n/a	Reports (custodian/consultants)
Annual review of asset classes	Reviews	Reports	Input (consultants)
Quarterly investment activity (additions, withdrawals and terminations)	Monitors/Reviews	Reports	n/a

III) EMPLOYEES' RETIREMENT SYSTEM

The Employees Retirement System (ERS) was established in 1965 as a defined benefit pension plan providing benefits to the employees of Montgomery County and other agencies or political subdivisions who elect to participate. The ERS is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and those employees who elect to participate in the Guaranteed Retirement Income Plan. The Board recognizes its fiduciary responsibility to manage the assets prudently and solely in the interest of plan participants and their beneficiaries and for the exclusive purpose of paying benefits and reasonable administrative expenses.

A) Investment Policy and Objectives

The Board recognizes the need to prudently manage the ERS assets to meet its statutory and fiduciary obligations and to achieve or exceed its objectives. The Board's investment philosophy is grounded in fundamental, prudent investment principles, incorporating modern portfolio theory and in-depth analyses and monitoring. The Board believes it can provide consistent, long-term performance at appropriate levels of risk by taking into account various factors, as defined in the Board's Governance Manual, that have a material impact on investment risk and return.

The ERS investment portfolio is a discretionary portfolio with a return objective of maximizing return over the long term at prudent and reasonable levels of risk. The return objective of the program emphasizes total return, favoring capital growth over current income. The following ERS plan characteristics justify this objective:

1) Because payouts in excess of contributions and normal income remain modest in comparison to the size of the total investment portfolio for the foreseeable future, the ERS portfolio does not need to produce high levels of current income.

2) Being tax-exempt, the ERS portfolio has no tax consequences related to ordinary income versus capital gains.

3) Because benefit obligations are based on average final earnings and are indexed to inflation, benefit obligations are very sensitive to inflation. Thus, real returns are more important than nominal returns in establishing an investment structure to meet return requirements.

4) The goal of the ERS investment program is to achieve a rate of return in excess of the required return established by the Plan Administrator for actuarial purposes. While the Board is cognizant that a total return-based investment program may produce short-term periods of underperformance relative to the actuarial rate, the Board believes that a long-term investment program focused on capital growth can be developed and maintained which is expected to at least achieve, if not exceed, the actuarial rate over the long-term.

B) Asset Allocation

1) Policy Targets and Ranges

The Board will conduct an asset and liability study at least every three years and establish a strategic asset allocation that identifies the percentage of the ERS assets to be invested in each asset class based on analysis of the ERS' liability structure and expected market conditions over a five- to ten-year time horizon. The Board allocates portfolio investments across three distinct categories – Growth, Risk Mitigation, and Real Assets/Inflation Protection - based on each investment's expected role in the portfolio.

The desire to maintain the constant strategic mix must be balanced with the cost of portfolio rebalancing. In establishing its risk tolerance, the Board considers its ability to withstand short and intermediate term characteristics of various asset classes, focusing on balancing risk with expected return. The Board has established tactical ranges within which each asset allocation is allowed to move without provoking any rebalancing transactions. The allowable ranges shall guide asset class and manager rebalancing decisions by the Executive Director. The target allocation and rebalancing ranges established by the Board are shown below:

	Target Allocation	**Allowable Ranges**
Global Public Equity	25	22 to 28
Private Equity	18*	15 to 21
Private Credit	9*	6 to 12
U.S. High Yield Bonds	3.5	2 to 5
Emerging Markets Debt	1.5	0 to 3
Long Duration U.S. Treasury Bonds	2.5	1 to 4
U.S Treasury Bonds	6.5	3.5 to 9.5

U.S. Investment Grade Corporate Bonds	5	2 to 8
U.S. TIPS	10	7 to 13
Diversifying Hedge Funds	4	2.5 to 5.5
Private Real Assets	14*	11 to 17
Cash	1	0.5 to 1.5

Alternative assets* target allocations, and recent changes to the target allocation, may be reached over a long time horizon, therefore, funds to be invested in these asset classes may temporarily reside in other asset classes. The target allocation and allowable ranges of the affected asset classes may be temporarily altered to account for this.

2) Rebalancing

The strategic objective of the Board's rebalancing program is to maintain the ERS' asset allocation targets while limiting unintended drift from the target weights caused by market movements and individual investment manager performance. One essential component of a strategic asset allocation is the development of and use of rebalancing ranges for each target allocation allowing for fluctuations that are inherent in marketable securities. Market movements and manager performance will cause periodic deviations in actual asset class weights from their target allocation. Significant movements from the long term asset class policy weights will alter the expected return and risk of the ERS' portfolio. The most efficient rebalancing method minimizes the tracking error related to drifts from the target allocation at the lowest possible transaction cost.

(a) Managers

Within all asset classes there is "misfit" risk arising from operating under broadly defined benchmarks for the asset class while employing managers who pursue narrower strategies in implementation. The Board structures managers within each asset class through a process which considers return, tracking error and factor risks, as well as qualitative assessments, to identify the optimal allocation to each manager. Similar to the overall Fund, market movements and individual manager performance will cause periodic deviations in actual manager weights from their target allocation. To minimize the tracking error related to these deviations, the Board establishes a rebalancing range of 90% - 110% of each manager's target allocation. If a manager's allocation deviates outside the approved ranges, the Board authorizes the Executive Director to transfer assets, by purchase and sale, between managers to return the manager's allocation to their target allocation.

(b) Monitoring Requirements

Board Staff will monitor the ERS' total allocation by manager and asset class on a daily basis through the custodian bank's risk compliance system. A daily asset allocation worksheet will be maintained reflecting the current allocation of each asset class and manager compared to the target allocation. Any breach of the allowable ranges will be reported to the Staff Investment Committee along with a recommendation for correction. The Executive Director will approve the transfer of funds to accomplish the rebalancing initiative.

Each portfolio manager will monitor the ERS' sub asset class allocation including style, sector, market capitalization, credit rating and duration and may recommend rebalancing to the Staff Investment Committee to minimize unintended benchmark drift.

(c) Rebalancing Process

The Board directs the Executive Director to take all actions necessary, within the confines of this statement, to act prudently to rebalance assets to within target ranges in a timely and cost effective manner when actual weights are outside the target range. The Board authorizes the Executive Director to transfer assets, by purchase or sale, between managers to return the asset allocation to the midpoint between the upper or lower level of the allowable range and target allocation. Movement from one manager to another will be based on the relative over/underweight of the manager to the manager's target allocation, liquidity characteristics, and current market conditions.

The Executive Director shall also consider the current positioning of the Asset Allocation relative to the target weights of each asset class when determining where to raise cash to fund Target allocations for new asset classes.

Any manager may be increased or decreased to achieve the rebalancing objective, however, given the illiquidity of private markets, it may not be optimal to automatically require rebalancing for these asset classes should an allowable range be exceeded. In the event that targets for these asset classes are exceeded, Staff will initiate discussions with the Board as to the most efficient means of rebalancing which may include adjusting the annual commitment pace for the asset class. Additionally, the Board authorizes the Executive Director to invest funds that would otherwise be invested in an underweight manager in a passive vehicle to acquire the desired market exposure.

The Executive Director will bring to the Board recommendations beyond the procedures outlined, including the use of derivatives, when appropriate.

(d) Cash Management

The ERS currently has cash outflows (primarily benefit payments and capital calls) in excess of cash inflows (primarily contributions and capital distributions). Therefore there will be various points in time where cash will need to be raised through manager reductions to meet the liquidity needs of the ERS. The Executive Director shall consider the current positioning of the Asset Allocation relative to the target weights of each asset class when determining where to raise cash. The Board authorizes the Executive Director to redeem from any manager to meet cash requirements based on the relative over/underweight of the manager to the manager's target allocation, liquidity characteristics, and current market conditions.

C) Investment Program Structure

The allocation of funds to various types of investments is of utmost importance in structuring an efficient portfolio designed to meet the ERS' objectives. Investments are not restricted by asset class or type and may include any investment deemed prudent by the Board, except as noted below. By County Code, all funds in the ERS portfolio must be managed by external investment managers who serve at the pleasure of the Board. These managers have full discretion over acquisitions and dispositions of investments and must adhere to the investment guidelines set forth by Staff. Managers shall be selected based on standards and procedures documented in the Governance Manual.

1) Investment Restrictions

(a) Legal Prohibitions

i. The County Code prohibits the Board from engaging in any transaction between the trust and the County or entity controlled by the County in which the Board does not receive appropriate compensation for any investments made or services provided.

ii. Sudan Restriction – The County Code prohibits the Board from investing in certain businesses conducting business in Sudan under certain conditions in its separately managed accounts.

(b) Other Investment-Related Issues

(i) Proxy Voting

As proxy voting rights are considered assets of the ERS, the Board recognizes its fiduciary responsibility to ensure that such rights are protected and delegates the authority to the investment managers responsible for such assets. Managers have full discretion to vote such proxies in the interest of the ERS participants and their beneficiaries, and must report voting activity to the Board on at least an annual basis. Investment managers are required to consider the Board's ESG Policy when executing proxy votes.

(ii) Fees, Commission, and Similar Expenses

The Board acknowledges its obligation to secure all services required to carry out its duties and to pay a fair price for those services. Transactions or trading fees paid from ERS assets must be only the "best execution" as determined in the sole judgment of the advisor ordering the transaction. Full disclosure and Board approval is required to the extent that any portion of fees generated by transactions in an account produce value for an entity other than the ERS.

D) Risk Management

Risk management is central to managing the assets of the ERS. The Board recognizes that achieving the Plan's investment objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns. Therefore the Board's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and that fiduciaries have the obligation to utilize risk efficiently. That is, plan fiduciaries are responsible for understanding the risks in various investment strategies, ensuring that they are properly compensated for these risks, and measuring and monitoring them continually. In particular, the level of risk taken should be consistent with the return objectives of the Plan.

This will be accomplished by maintaining a well-diversified ERS portfolio. In addition to diversification by asset class, investments will be diversified by manager styles and market segments, within acceptable ranges. In aggregate, the investments are expected to produce a sufficient return over the long term while prudently managing risk.

Recognizing risk management objectives, the Board ensures adequate risk control through the following means:

1) Diversification

a) Investments shall be diversified to minimize the impact of the loss from individual investments. In addition to achieving diversification by asset class, careful attention shall be paid to diversification within each asset class and sub-allocation and across managers.

b) To mitigate this risk, the Board has established the following manager funding limits:

i. No single manager will be allocated in excess of 30% of MCERS fund assets. The objective of this limitation is to ensure diversification of business risk.

ii. No single active product of a given firm will be allocated in excess of 20% of MCERS fund assets. The objective of this limit is to ensure diversification of strategy risk.

iii. No single manager will be allocated in excess of 75% of a given asset class. Asset classes are defined as follows: Equities, Fixed Income and Real Assets.

iv. MCERS shall not comprise more than 20% of the capital committed to a private commingled fund, except where Montgomery County entities are the sole investor.

2) Portfolio Guidelines

Every portfolio shall operate under written guidelines approved by both Board Staff and the Investment Managers that are designed to ensure the portfolio pursues its return objective within the acceptable risk parameters.

3) Risk Parameters

The total active risk shall be within the margin approved by the Board. Staff, in conjunction with the consultant (if applicable) shall recommend the risk parameters. In consideration of sensitivity to investment risk, the Board will regularly review its asset allocation in terms of risk weights (i.e. volatility) as well as in terms of dollar weights.

4) Compliance Monitoring

Risk management will include a reporting methodology that ensures that the Board's fiduciary responsibilities are met in a consistent manner.

5) Use of Derivatives

The strategic objective of the use of derivatives is to facilitate risk management. The use of derivatives allows the manager to separate risk and in particular, to target the specific risk defined within the manager's guidelines. In addition, derivatives may facilitate the implementation of more advanced investment strategies. These strategies may improve the portfolio's efficiency and assist with the aim of maximizing the expected return of the investments at a given level of risk.

The investment philosophy adopted by the Board, which governs the use of derivative securities, is summarized as follows:

Derivatives should be used only in circumstances where they offer the most economic means of gaining exposure to an asset class (i.e. commodities or currencies) or improving the risk/reward profile of the portfolio (the cost of the derivative versus the cost of constructing an equivalent position in traditional securities).

Derivatives should not increase portfolio risk above the level that could be achieved in the portfolio using only traditional investment securities. In particular, the use of derivatives should not violate either the letter or the spirit of investment guidelines that limit exposure to market, sector, and security risks.

Derivatives should not be used to increase the dollar value of the position (economic leverage). Any leveraging of the portfolio is prohibited, unless expressly permitted by an investment policy and/or manager guidelines.

Derivatives should not be used to acquire outright exposure to changes in the value of assets or indices that by themselves would not be purchased for the portfolio.

(a) Derivatives Strategies

Below are the four basic strategies that can be achieved through the use of derivatives. Of these four strategies, substitution, risk control and arbitrage are permitted; speculation is prohibited.

(i) Permitted

Substitution: When the characteristics of the derivative sufficiently parallel those of the cash market instrument, the derivative may be substituted on a short-term basis for the cash market instrument, or on a longer-term basis to avoid withholding taxes. The strategy is particularly useful when investing cash flow or liquidating investments, since the derivative can be used to manage more precisely market entry and exit points.

The use of derivatives as an investment program's primary or exclusive portfolio instruments in the context of commodities or currencies as an asset class is permitted.

Risk Control: When characteristics of the derivative instrument sufficiently parallel those of the cash market instrument, an opposite position in the derivative can be taken from the cash market instrument to alter the exposure to or the risk (volatility) of the cash instrument. This strategy is useful to manage risk without having to sell the cash instrument. Sometimes referred to a "hedging," the use of the derivative in this context means that there is a high correlation in price movement between the cash market instrument and derivative instrument.

Arbitrage: When a transaction is done for profit based on a price difference between a derivative and a similar fungible cash instrument, this transaction is known as arbitrage. This involves the simultaneous purchase and sale of two instruments for the purpose of capturing a pricing disparity between them. An example of this transaction is an index arbitrage where a simultaneous trade to buy an index of stocks and a trade to sell a similar index futures contract occurs, where the sale of the index futures contract may be higher than the purchase. This transaction allows the arbitrageur to gain a profit from the price difference between similar securities. This usually takes place due to different markets, exchanges or

instruments. This is only permissible when expressly stated by an investment policy and/or manager guidelines.

(ii) Not Permitted

Speculation: When the derivative is purchased or sold for the purpose of achieving a higher possible gain than traditional investments but the investor recognizes that a higher probability of loss could be realized, this transaction is called speculation. An example of speculation is the purchase or sale of an option with the sole purpose of achieving gain. The investors assume the risk taken by purchasing or selling the option with the understanding that they could lose all their invested principal due to the finite life of the option. The goal of every program should be the attainment of the best risk adjusted returns for the portfolio.

(b) Types of Instruments

The derivative instrument market is evolving and new instruments are created constantly, therefore listing permissible and non-permissible securities is always problematic. Rather than list each derivative security, classes of derivatives will be described below, and may only be used by managers with guideline authority to do so. The prohibitions and examples are designed to enhance interpretation and understanding of this philosophy and should not be considered an exhaustive list. Any derivative transaction, or action not specifically permitted with this statement, is prohibited unless approved by the Board. Managers should request approval of any exception.

Futures Contracts: Stock index futures, interest rate/bond futures, commodity futures and currency futures contracts which are Commodities and Futures Trading Commission (CFTC) approved are permitted when the manager has permission to invest in the underlying or deliverable cash market instrument. Financial futures may be used to manage the duration of the portfolio, to implement sector changes rapidly, and as a substitute for physical securities when advantageous. The use of futures provides substantial benefits in terms of reduced transaction costs and flexibility to invest in physical securities. Financial futures should be used in a manner consistent with the overall duration target and investment objectives.

The face value of interest rate futures contracts shall be defined as the duration-adjusted bond equivalent value of the contract. The objective of this adjustment is to equate the price volatility of short-term credit market instruments with the price volatility of long-term credit market instruments. The adjusted face value will be used for all exposure calculations.

Options: Stock index options, options on stocks and bonds and currency options, and exchange traded options on futures, are permitted for use by managers who have permission to invest in the underlying or deliverable cash market instrument or whose mandate is to overlay a designated portfolio of deliverable cash market instruments.

Futures and options contracts shall be limited to liquid instruments actively traded on major exchanges and Over-the-Counter.

Currency Forward Contracts: Currency forward contracts are permitted for use by managers who have permission to invest in the underlying or deliverable cash market instrument or whose mandate is to overlay a designated portfolio of deliverable cash market instruments. Foreign exchange transactions may occur between foreign currencies (cross currencies) when made in anticipation of future sales or purchases

of securities or when consistent with the investment manager's currency management guidelines.

Unless expressly permitted in the investment manager's guidelines, forward positions should not have a notional value, as measured in local currency, greater than the currency asset being hedged, allowing for short-term fluctuations due to operational aspects of trading and pricing. Further, managers are required to diversify roll dates when significant levels of hedging are in place, e.g. over 50% of the account value, or when roll dates extend beyond six months. Derivative positions will be marked to market daily.

Swaps: Swaps which may provide for the receipt of the rate of return of the permitted cash market instrument are allowed. For currency forward contracts and swaps, counterparty credit risk will be monitored. Counterparty credit worthiness shall be equivalent to investment grade A (S&P) and/or A (Moody's), and exposure will be defined within individual manager guidelines. Derivative positions will be marked to market daily.

Structured Notes and Mortgage Derivatives: Structured notes and mortgage derivatives are permitted and are expressly addressed in manager's investment guidelines. However, certain structured notes are not appropriate if they have the following characteristics:

- significant difficulty or imprecision in measuring risk of the security or its underlying collateral.
- highly unpredictable cash flows
- poor liquidity
- implied leverage
- subject to dramatic duration shifts with changes in interest rates (extension risk), such as floating rate securities whose interest rate reset provisions are based on a formula that magnifies interest rate changes, e.g., inverse floaters or leveraged floaters.

Derivative positions will be marked to market daily.

Floating rate reset mechanisms must be tied to domestic fixed income indices. Cost of funds indices and foreign exchange indices are examples of inappropriate floating rate structures.

Specific structures and constraints will be addressed in managers' guidelines.

Warrants: Purchasing warrants separately is prohibited; however, warrants are permitted when attached to securities authorized for investment.

Credit Default Swaps: The purchase and sale of single issuer and basket/index credit default swaps are permitted for use by managers, if expressly permitted in the manager's investment guidelines included in its contract. High yield credit default swaps may not be used to create a net short position for a single issuer.

(c) Diversification of Counterparties

For non-exchange traded derivatives, individual counterparty exposure is limited to 10% of the Montgomery County Employees' Retirement System Fund. Individual counterparty gross gain/loss exposure is limited to 0.5% of the Montgomery County Employees' Retirement System Fund assets. If these limits are exceeded, Staff will inform all investment managers that within 10 days of notification, no additional

derivative exposure may be initiated with that counterparty until further notice unless the trades are being placed to reduce risk with the counterparty.

(d) Reporting Requirements

Prior to initiating a derivatives position, the manager must provide a written Derivatives Program and procedures. Daily the manager must mark-to-market the derivative positions through the use of a daily pricing service and reconcile cash and margin positions to the custodian bank.

Managers must provide a report monthly that outlines by derivative:

- counterparties used, quality of the counter-party, and the market value, cost value, gain/loss, notional exposure, and amount of exposure;
- a description of the strategy and expected outcome of the derivative use; and the quantified impact to the portfolio.

(e) Responsibilities and Delegations

The Board is responsible for approving and amending the derivatives program and has delegated responsibility for administering the program to the Board Staff.

The Board Staff shall review the written policies and procedures of the external money managers with respect to derivative use and shall monitor reports from the manager and master custodial bank at least quarterly to ensure derivative use is in compliance with this Program.

The Board may permit an investment manager to invest in derivatives as defined within the fund's investment prospectus, declaration of trust or other governing documents. Specifically, the Board may invest in derivative securities within commingled or mutual funds that invest in derivatives based on the investment fund managers' use of derivatives as described in their prospectus, written characteristics, or other governing documents.

The managers are granted investment discretion under their investment management agreements with the Board subject to their investment management guidelines. The Board delegates to the managers the execution of derivatives transactions under this statement. The managers who are permitted to use derivatives must comply with this statement, or derivatives use is prohibited. Nothing in this program supersedes the managers' legal obligations to the Board contained in their investment management agreement.

E) Performance Review and Monitoring

Performance and risk will be monitored to ensure compliance and progress toward stated goals and objectives. The Board believes timely reporting and communications concerning the status of investments and their performance is essential.

Staff and the consultants shall deliver independent reports to the Board adequate to indicate whether the ERS is meeting its objectives and that will permit the Board to monitor each portfolio for compliance with this statement. The Board will establish performance and risk measurement and attribution standards for the total Plan, each asset class and component portfolios.

The performance of the ERS portfolio will be measured in comparison with return calculated on industry-recognized market indices, the actuarial assumed rate of return, and other relevant indices representing returns achieved by comparable investment portfolios and programs. Although the focus of the ERS investment program is long term, a three- to five year measurement period will be used to evaluate performance of the specific portfolios within the ERS.

Investment managers will be measured against stated objectives, an appropriate benchmark and a peer universe of portfolios managed by a similar investment style. Active managers should exceed their respective benchmark, net of fees, over a three to five-year period.

In the event of significant or consistent underperformance at the Fund or investment manager level, Staff and the Consultant will identify primary drivers for the Board and recommend corrective action as appropriate.

IV) RETIREMENT SAVINGS PLAN AND DEFERRED COMPENSATION PLAN

Montgomery County also sponsors two defined contribution plans: the Retirement Savings Plan ("RSP") to provide eligible participants a multiple-employer defined contribution plan and a Deferred Compensation Plan ("DCP") to provide eligible employees a voluntary method of retirement savings through pre-tax employee contributions to individual participant accounts

The County Code provides that the Board must invest each participant's account in the Board designated investment options, including the Self Directed Brokerage Account (SDBA), as directed by the participant.

A) Selection of Investment Options - Board

The Plans' participants have different investment objectives including current income, capital preservation or capital appreciation, as well as different time horizons and risk tolerances. To meet these varying investment needs, the Board will provide a diversified slate of investment options, each of which has a different set of risk and return characteristics as disclosed in their fund prospectus or other offering documents.

The Board selects investment options that:

1) Cover a risk and return spectrum of appropriate investment classes

2) Are distinguishable and have distinct risk and return characteristics

3) Are well diversified and professionally managed

4) Charge fees that are reasonable for the asset class and investment style

5) Maximize return within reasonable and prudent levels of risk

B) Selection of Investment Options - Participant

Participants may choose one or more investment options depending on individual investment objectives.

Participants may change investment elections at any time (trade restrictions and fees on redemptions may be initiated by a particular option at any time). A participant's direction of investment remains in effect until otherwise changed by the participant. If a participant fails to designate an investment option, the participant's account balance and future contributions will be invested in the default option, which is currently the lifecycle fund (also known as target date

fund) closest to the participant's expected retirement date, based on the participant's date of birth.

Participants are advised that they bear all investment risk and earnings on their participant account balances are determined solely by their investment elections. No person who is a fiduciary shall be liable for any loss resulting from the participant's exercise of control over his or her plan account.

Prior to opening a Self Directed Brokerage Account (SDBA), participants will be required to sign an agreement acknowledging their understanding that he or she exercises exclusive control over his/her SDBA and that the Board does not select or monitor the investment options traded in the SDBA.

C) Annuity Option (RSP Only)

Section 33-120(f)(2) requires the Board to provide an annuity distribution option to RSP participants. The Board will provide several vendors, through the Third Party Administrator ("TPA"), from which a participant may select an annuity option. Annually, the Board will review the TPA's evaluation of the vendors, with a focus on additions or deletions to the list of approved vendors, as well as vendor credit ratings. The TPA serves as the Board's expert in performing analytics and due diligence to evaluate factors impacting each annuity provider's claims paying ability and creditworthiness, including:

1) Quality and diversification of the annuity provider's investment portfolio

2) Size of the insurer relative to the proposed contract

3) Level of insurer's capital and surplus

4) Lines of business of the annuity provider and other indications of the insurer's exposure to liability

5) Structure of the annuity contract and guarantees supporting the annuities

6) State guarantee association protection

In addition, an annuity may be purchased via the ERS by the participant transferring their balance.

D) Third Party Administrator

The Board, in conjunction with the Chief Administrative Officer, will select a Third Party Administrator (TPA) to perform functions related to the administration of the Plan and recordkeeping of participant investment accounts, including: enrollment, exchanges, transfers, distributions, communication, performance and fee information, and periodic individual statements and benefit payments.

The Board will conduct a review annually, or as necessary, of the TPA, to evaluate the expenses, the revenue sharing arrangements in place, and to determine if the TPA is meeting the administrative requirements as described above.

E) Investment Education Resources

Section 33-125 (a)(5) requires the Board to make investment counseling services available each year to all RSP participants to provide advice on the investment options available. To

meet this requirement, the Board will engage an investment counseling firm to provide counseling to each participant annually. The Board annually reviews the service provider to ensure that the contract terms are being met and that participants are satisfied with the service provided. Each participant is asked to complete a survey after meeting with the service provider to evaluate the satisfaction level with the counseling session.

RSP, DCP, and GRIP participants will have educational resources available to make informed investment decisions based on their investment goals. The TPA will provide investment education and will include materials such as: quarterly statements and newsletters, onsite seminars, one-on-one counseling sessions, representative visits, and internet services.

The Board has administrative procedures in place with the TPA to ensure that participants receive information on risk factors, fee structures and other issues related to investments. The TPA will provide these materials upon request.

F) Investment Options

Recognizing that Plan participants have different investment styles and degrees of involvement in managing their retirement savings, the Board developed the following investment tiers to categorize the investment options offered in the Plan:

Tier	Investment Style	Investments Offered
Tier 1	One decision funds	Lifecycle funds
Tier 2	Passive exposure	Index funds across major asset classes
Tier 3	Active management	Funds within all major asset classes
Tier 4	Active management - no evaluation by Board of investment options	Self Directed Brokerage Account

The Board offers a variety of options within each tier. Recognizing that some participants may want to invest in funds not currently offered by the Board, such as socially responsible funds, and to have more independence, or greater control in managing their Plan account, the Board permits participants to select any mutual fund, exchange traded product (e.g. ETFs), equity, or fixed income product, unless otherwise prohibited, through the Self-Directed Brokerage Account (SDBA). The Board will not monitor or evaluate the investment options available within the SDBA.

When selecting investment options offered in Tier 1, 2, or 3, the Board may consider such factors as:

1) The size, company staffing and organization, history, reputation, regulatory and legal compliance of the investment firm that manages each investment option.

2) The experience of the individual portfolio manager.

3) The investment objectives and structure, sector and security diversification.

4) Adherence to investment strategy/style drift.

5) Its historical risk and return measured against appropriate benchmarks and/or peer groups.

6) Avoidance of duplication among investment options.

7) The cost to participants, including any purchase or exchange fees, as well as its annual operating expenses.

8) The ability to assist participants in meeting their individual investment goals when evaluated with the other available investment options.

9) New product/investment opportunity.

G) Performance Review and Monitoring

On a quarterly basis, the Board formally reviews and evaluates the investment options offered and the performance of each investment option. Board staff monitors the options daily and will notify the Board if circumstances warrant immediate action. The Board will discuss taking action if an investment option fails to satisfy its performance criteria, the basis for selecting the investment option has changed, or if some other material change prompts concern. If such an event occurs that causes concern as to the appropriateness of continuing to offer that investment option, the Board may take one or more of the following actions:

1) Establish a probationary period during which any area of concern will be assessed and, if necessary, corrected.

2) Supplement the investment option with one or more alternative investment options for that category.

3) Replace the investment option with one or more alternative investment options for that category.

4) Eliminate the investment option.

Changes to the investment options available will be made at the sole discretion of the Board, which shall document its decisions in the Board minutes, and communicate all changes to the participants on a timely basis. If an investment option is eliminated and a replacement option is added, participants will be notified that if they fail to make an election to move their balance from the eliminated option prior to the date of transfer, any assets in the eliminated option will be transferred to the replacement option.

V) MONTGOMERY COUNTY GROUP TRUST

The Montgomery County Group Trust was established in April 2017, as permitted by section 33-170 of the Montgomery County Code, to commingle the assets of each Participating Trust for investment purposes, specifically to create investment opportunities and efficiencies for the investment of Montgomery County's employee retirement plan trusts. The following trust funds are eligible to participate in the Group Trust:

(a) Employees' Retirement System;
(b) Retirement Savings Plan;
(c) Deferred Compensation Plan; and
(d) Consolidated Retiree Health Benefits Trust

The interest of each Participating Trust will be accounted for separately by the custodian bank. No Participating Trust will be deemed to have a legal individual ownership in any asset held by the Group Trust – rather each Participating Trust will own its pro-rata share of the Group Trust entity.

A) Trustees

The Chair of the Board of Investment Trustees and the Chair of the Consolidated Retiree Health Benefits Trust Board of Trustees will act as Trustees of the Group Trust. The Board has appointed the Executive Director as the directed trustee to handle administrative issues of the Group Trust.

B) Admissions & Withdrawals

A Participating Trust may withdrawal in whole or in part from the Group Trust at any time upon action by its Board. A withdrawal or termination of the one of the Participating Trusts will not have any effect on the continuance of the Group Trust.

C) Investment Authority

The Board of a Participating Trust may direct the Trustees to invest or permit an investment manager to invest the assets of the Participating Trust in any investment that is authorized under the County Code.

As directed trustee, the Executive Director has the authority to take all actions necessary, within the confines of this statement, to act prudently to rebalance assets within the Group Trust to target ranges in a timely and cost effective manner when actual weights are outside the target range. The Board authorizes the Executive Director to transfer assets, by purchase or sale, at the direction of the Trustees upon approval from the Board of the Participating Trusts.

D) Investment Guidelines

The Trustees shall invest the Group Trust Fund as directed by each Board and in the same manner as funds of the Plans are invested, as required by County Code sections 33-60, 33-125, 33-145, and 33-162. As directed by each Board, the Trustees will be responsible for managing and directing the investment of the Group Trust Fund.

The assets of each Participating Trust will be held in a separate Subtrust. The Subtrusts may be commingled for investment purposes, but the beneficial interest of each Participating Trust in each Subtrust will be held separately by the custodian bank for accounting and performance.

E) Performance Review and Monitoring

Performance and risk will be monitored to ensure compliance and progress toward stated goals and objectives. Investment managers contained in the Group Trust will be measured against

stated objectives, an appropriate benchmark and a peer universe of portfolios managed by a similar investment style.

VI) CLASS ACTION/SECURITIES LITIGATION

The Board of Investment Trustees (the Board) has a fiduciary obligation to recover funds lost through investments in public securities as a result of corporate mismanagement or fraud. The Board adopts this policy to assist in evaluating relevant securities litigation complaints in order to serve the best interests of participants and beneficiaries of the Employees' Retirement System (ERS). The objectives in creating this policy are to:

- Fulfill the Board's fiduciary duty by effectively managing claims as assets of the trust fund.
- Maximize recoveries on claims.
- Reduce fees paid to obtain recoveries.
- Assist in identifying corporate governance issues.

The Board believes the most effective class action evaluation process for the ERS consists of assessment and evaluation of claims and active participation in class action litigation, where warranted. This policy has three parts: (1) monitoring the filing of claims and settlement proceeds for U.S. corporations; (2) asset recovery as passive class members; and (3) a policy for active securities litigation for securities listed on both the U.S. and foreign exchanges.

A) Monitoring of Claims/Settlements

Under U.S. federal law, and in some foreign jurisdictions, securities class actions function as "opt-out" classes. This means that investors, such as the ERS, do not need to actively participate in order to recover their pro rata share of a class action recovery. Only a timely and valid proof of claim or registration as a plaintiff in order to realize recoveries is necessary. This is known as a "passive class member."

The Board shall retain a third-party vendor and/or the custodial bank to be responsible for filing claims in cases where the ERS is a passive class member and is not taking an active role in litigation. These cases include: (1) U.S. class action securities litigation proof of claim forms; (2) foreign passive filings (claims filings processes that are similar to those in the U.S. that do not require the ERS to become an active litigant or subject to adverse cost risk); and (3) passive class participation for antitrust matters. In addition, a third party vendor or outside legal counsel shall act as a "securities litigation monitor" to promptly identify all pending class actions in which the ERS may be a class member and to make a preliminary calculation of the ERS' losses in a given case.

The securities litigation monitor shall provide the following services to the ERS:

1. Identify all class action suits in which the ERS may be a class member;
2. Make a preliminary calculation of the ERS' losses in each case;
3. Notify the Board of those cases where estimated losses for the ERS are $1 million or greater based on the class period proposed in the litigation;
4. Monitor pending class action suits in which the ERS may be eligible to be a class member and provide updates of any changes to pending litigation, including: updates to the "class periods" (the start and end dates, which could affect the ERS' potential losses, may change throughout the litigation), updates to case's status (is the case still active, has it been settled or dismissed), or any new data regarding settlement, including

settlement notices and disbursements of funds;

5. Provide a complete list of all identifying data and company names according to the ERS' portfolio that are eligible to participate in each class action and update when a settlement is pending;
6. Provide a weekly list of upcoming claims filing deadlines;
7. Provide timely delivery of monitor's findings and research; and
8. Offer Staff access to online securities litigation database, including all eligible CUSIPs, class periods, settlement dates, etc. Database should also include information regarding state and SEC settlements (disgorgements).

B) Roles and Responsibilities

1. Custodian Bank - Passive Claims. The Board's custodian bank tracks settled class action lawsuits and files claims on behalf of the ERS when warranted. The custodian bank can also facilitate class action tracking prior to settlement by supplying data to the third-party monitor and/or a securities litigation counsel should the Board, in conjunction with the County Attorney, determines it is in the best interest of the ERS to retain securities litigation counsel.

2. Securities Litigation Monitor. The Board may select a third-party vendor or other service provider to track pending claims, to monitor securities class action cases where the ERS has suffered a loss during the class period, and to estimate potential recovery. If outside counsel is necessary, the Board will request approval from the County Attorney.

3. Claims Evaluator. A third-party vendor whose sole responsibility is to evaluate the estimated economic loss to the ERS. In order to prevent bias, the claim evaluator will not be selected as the ERS' securities litigation counsel in the event that a decision is made to actively pursue litigation in a case.

4. Board Staff. Board Staff will timely provide the claims monitor or evaluator with any requested information, including data from the custodian bank, and will participate in interviews or meetings requested. If Staff becomes aware of potential securities fraud violations involving the ERS through other means, they will recommend appropriate Board action or strategy for the Board to pursue.

5. In-House Counsel. In-house counsel assigned to the Board shall be responsible for oversight of all legal counsel activities.

   Lead Counsel. If appointed to serve as lead plaintiff, the Board shall work with the County Attorney, lead counsel, consistent with the provisions of the Private Securities Litigation Reform Act (PSLRA), to represent the class based on an evaluation of their experience, litigation plan, and fee proposal based on the Board's procurement policy. Lead counsel candidates shall be required to present a case evaluation and a summary of anticipated Board responsibilities (e.g. financial and human resources) from commencement of the action through settlement.

C) Evaluating Claims

The prompt evaluation of a possible claim is critical to obtain recoveries. As such, the claims evaluator will conduct an in-depth evaluation of any case where the ERS' estimated economic losses are greater than $1 million based on the class period proposed for the litigation, and the County Attorney, in conjunction with the Board and Executive Director, determine that a claims evaluation will further the objectives of this policy.

The following criteria should be considered in evaluating losses for a particular claim:

1. $1,000,000 or Above. Losses of $1,000,000 or more should require in-house counsel and Board Staff to consider whether the Board may qualify as lead plaintiff, monitor and participate as a member of the plaintiff class, or take alternative action. Any recommendation that the Board serve as lead plaintiff should include, without limitation, an analysis of the following factors:
   a. The amount of loss and likelihood of recovery;
   b. Whether the losses are sufficient to qualify the Board as the "most adequate plaintiff", and thus warrant the expenditure of staff time and resources required to serve as lead plaintiff;
   c. Major strengths and weaknesses of the case; and
   d. Other institutional investors likely to be active as lead or co-lead plaintiff.

2. Less than $1,000,000. Estimated losses that total less than $1,000,000, under appropriate circumstances, may require consideration of whether the Board could qualify as lead plaintiff. At a minimum, in-house counsel and Staff should:
   a. Monitor the claim
   b. Report on any significant developments
   c. Confirm the filing of "proof of claim" to ensure that the system equally shares in any final judgment or any settlement that is awarded to class members.

With regard to a foreign action, consideration of whether to obtain an in-depth assessment will include a review of the costs and risks to participate in the litigation and the proposed funding and terms for participation.

The claims evaluator will provide the following services:

1. Assess and evaluate the known facts and the law applicable to the case;
2. Determine how other institutional investors are proceeding;
3. Review estimate of ERS' damages;
4. Where necessary and appropriate, review ERS' investment records, interview staff, external managers, and others;
5. Provide a written, confidential report containing (a) summary of findings and (b) a recommendation as to the position the ERS should take in the litigation. The report will include a full explanation of reasons supporting recommendation, including, at a minimum, the following:
   a. Whether the ERS' potential damages are large enough to warrant the expenditure of staff/counsel time that would be required for active involvement in the case;
   b. Whether other institutional investors are likely to become actively involved;
   c. Whether the ERS' involvement as lead plaintiff would add value to the potential settlement or help achieve a corporate governance goal or other policy goal of the ERS; and
   d. Whether there are other exceptional circumstances warranting seeking appointment as lead plaintiff.
6. Be available, on an "as needed" basis, to confer with the County Attorney, staff, and/or the Board regarding findings and recommendations.
7. Where a decision is made to seek lead plaintiff status, assist the County Attorney and the Board in arranging fees structure with litigation counsel.

D) Securities Litigation Counsel

The Board, in conjunction with the Office of the County Attorney, will be part of a Committee to select Securities Litigation Counsel, based on the Board's procurement policy, to (i) evaluate whether the Board has sufficient losses to qualify as lead plaintiff on behalf of the class, (ii) confirm proof of claims filings on the Board's behalf, and (iii) be considered to represent the class in cases where the Board has been selected as lead plaintiff.

The Board may request the County Attorney to engage outside counsel on a case-by-case basis solely to evaluate the merits of a securities fraud complaint and other relevant factors to determine if the Board should become lead plaintiff of the purported class. In cases where such counsel has been retained solely as review counsel such counsel may not be selected to serve as lead counsel .

Where a decision is made to seek lead plaintiff status securities litigation counsel shall provide the following services on behalf of the ERS:

1. Gather facts and assess laws applicable to the case;
2. Represent the ERS and the plaintiff class at all stages of litigation;
3. Review investment records, interview staff, external managers, others;
4. If settlement is proposed, provide a written, confidential report containing (a) summary of findings and significant events in the litigation and (b) recommendation as to whether the ERS should accept the proposed settlement. The report will include a full explanation of reasons supporting recommendation; and
5. Be responsive to, and available on an "as needed" basis to confer with, the County Attorney, staff, and/or the Board regarding status, findings, settlement proposals and recommendations.

E) Filing of Claims

Upon the settlement or other resolution of class action or other securities litigation, the custodial bank shall timely file all documents and take other steps necessary to insure that (a) the ERS' interests are protected and (b) all monies due the ERS from such litigation are collected.

F) Reporting

Staff will provide the Board with a semi-annual report on the recoveries of all claims to verify that the ERS settlement allocation was calculated in accordance with the court approved plan of allocation to ensure the ERS received all the monies to which it was entitled.

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