

101 BERS INVESTMENT POLICY

Every four to eight years, the Board of Education Retirement System gets a new Board of Trustees. The board has many oversight responsibilities, ranging from the budget to the hiring of the Executive Director. One of the most important jobs of the new Board of Trustees is to decide on how to invest the assets of the fund so that over the long-term, the fund can pay the benefits promised to our members. BERS is unique among the five New York City Retirement systems in that the majority of our board are members of the Panel for Education Policy and volunteers. As someone who has served on the board of the other retirement systems, I know what a difference it makes to have time to research. As Director of the Investment Strategy Department, my team and I, along with our investment consultants are tasked with assisting the board as they make critical investment decisions. Over the next few BERS Words, I will be writing about the different topics that we cover to help get trustees acclimated. This time around, I will be writing about the Investment Policy Statement.

INVESTMENT POLICY STATEMENT

The Investment Policy Statement, IPS for short, is the most important governing document for the BERS investment program. The document summarizes our key investment policy decisions and explains the rationale behind each decision. For the Board of Trustees and our members, it is a mechanism to ascertain performance of the program. As a long-term investor who expects to pay benefits out into the future, the IPS helps us balance short and long-term considerations. In the short-term the best way to hold any investment team accountable is whether or not we follow the policy and prescriptions laid out in the IPS. Over the long-term, it helps us to understand whether the policy we set out actually leads to desired outcomes, namely that we have enough assets to pay promised benefits well into the future.

The IPS is divided into several sections. The first section defines the fund's purpose, objectives, policy, and strategy. The fund's purpose and objectives define what we are trying to accomplish and why. The fund's policy and strategy

define how we will go about fulfilling our purpose and accomplishing our objectives.

The next section is duties of responsible parties, where we describe the role of every person and organization that has hand in making a successful program. At the top we have the Board of Trustees; all investment decision making is vested with the board, but they have plenty of help. BERS staff, the New York City Comptroller's Office, the Office of the City Actuary, the board investment consultants, and the investment managers who buy and sell securities all play a critical part in the success of BERS investment program.

Following duties and responsibilities is a section on asset allocation. After the development of investment policy, setting the asset allocation is the most important decision that the Board of Trustees makes. Asset allocation is the decision to apportion the fund between various kinds of investments, that together, give the fund the best chance of achieving its target return without taking undue risk. Our current target asset allocation, broadly speaking, is 47% in stocks, 27% in bonds, and 26% in alternatives (things like real estate other private assets that are not publicly traded).

After setting the asset allocation, we now have to select the firms that will actually carry out the investment mandates. Termed manager selection, we look at team, track record, ability to work with a public pension fund, and how they fit in their portfolio.

BERS, like the other New York City Retirement Systems are governed by state law that determines which investments are eligible for inclusion in the fund. Currently, the state of New York limits the amount of money we can invest in private assets and in international securities. In addition, from time to time, the board may determine that certain kinds of securities, sectors, or countries may be too risky for inclusion in the fund are ineligible for inclusion in the BERS portfolio.

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The last section of the main body of the IPS is Performance Measurement and Monitoring. We monitor risk and return, progress on our annual plan, the funded ratio (the total assets versus the present value of future benefit payments), as well as other initiatives that the board deems relevant.

The BERS Investment Strategy Department reviews the investment policy statement annually, but we go through a formal process every three to five years. Just know that we are constantly working to make sure that investment policy is always up to date with the latest developments in investment management. ■