

# City of Columbia Police & Fire Pension Statement of Investment Policy

Approved by the City Council on \_\_\_\_\_, 2019

Council Bill Number: \_\_\_\_\_

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**Section 1 - Executive Summary**

<b>Name of institution</b>	City of Columbia Police & Fire Pension
<b>Name of account</b>	Defined Benefit- Employer Directed
<b>Inception date of Plan</b>	2-4-1991
<b>Portfolio value</b>	
<b>Portfolio time horizon</b>	Perpetuity
<b>Primary investment objective</b>	Total investment return
<b>Specific investment strategies</b>	Income and Growth
<b>Absolute investment strategies</b>	Return as recommended by the actuary and approved by the Board

**Evaluation benchmark**

- 26% Russell 1000
- 8% Russell Mid Cap
- 6% Russell 2000
- 15 % MSCI EAFE
- 41 % Barclays Aggregate Bond Index
- 4% ML High Yield
- 0 % US Treasury Bill- 3 month

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## Section 2 - Introduction & Purpose

This statement of investment policy is set forth by the City of Columbia on behalf of its Police & Firefighters' Retirement Boards to reflect the investment policy, objectives, and constraints of the entire Plan.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical. Investments shall be made in accordance with the requirements of Missouri Law and with a commitment to the principles of safety, liquidity and yield.

The statement of investment policy consists of the following sections:

Section 1 - Executive Summary

Section 2 - Introduction & Purpose

Section 3 - Assignment of Responsibility

Section 4 - Investment Objectives

Section 5 - Risk & Liquidity

Section 6 - Asset Allocation

Section 7 - Investment Guidelines

The City of Columbia Police Retirement Board & Firefighters' Retirement Boards are fiduciaries. Investments shall be made by the director of finance or the director's designee under the direction and review of the investment committee established per Section 18-24 of the City of Columbia's Code of Ordinances. The director of finance shall serve as administrator for the police retirement fund and firefighters' retirement fund and of all assets, payments and deposits made or received from prior plans. The director of finance shall keep the books and records of the plans and cause them to be audited annually by an independent auditor as part of the city's annual audit. The director of finance shall annually prepare and have available as public information for each plan, a comprehensive annual financial report showing the financial condition of the plan as of the end of the plan's fiscal year in accordance with section 105.661 RSMo.

The director of finance shall have all powers necessary to discharge the duties of plan administrator, including, but not by way of limitation, authority to make the initial determination of the right of any person to any interest in or eligibility for any benefit under the plans. The director of finance may adopt rules to implement the police retirement plan and the firefighters' retirement plan. All rules and decisions of the director of finance shall be uniformly and consistently applied to all covered employees in similar circumstances. When making a determination or calculation, the director of finance shall be entitled to rely upon information furnished by a covered employee or beneficiary, the city, the legal counsel of the city, or the actuary. The director of finance shall issue directions concerning all benefits which are to be paid from the trust fund pursuant to the provisions of the plans. The director of finance may require a covered employee to complete and file with the director of finance an application for pension and all other forms approved by the director of finance, and to furnish all pertinent information requested by the director of finance. The director of finance shall account for, separately:

- (1) Those assets necessary to maintain the actuarial and financial soundness of the police retirement fund;
- (2) Those assets necessary to maintain the actuarial and financial soundness of the firefighters' retirement fund.

These funds shall at all times be invested in a manner consistent with the laws of the United States and the State of Missouri and the ordinances and charter of the city. Nothing in Chapter 18 of the City Code requires segregation of assets nor permits or authorizes the partition of fund assets by the boards of the respective funds. All assets of the funds created by article II of Chapter 18, and all assets necessary to maintain the obligations of past funds, may be jointly invested with profits, losses, income and charges with respect thereto being received, borne, or shared by the funds in proportion to the amount of the assets invested by the fund or past fund.

The Director of Finance is responsible for directing and monitoring the investment management of the assets of the Plans. The Finance Director is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

#### **Investment Management Consultant**

The consultant may assist the Finance Director and the Investment Committee in establishing an investment policy to recommend to the City Council. The consultant may assist the Finance Director in objectives and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.

#### **Investment Managers**

The investments of the City of Columbia Police & Fire Pensions will be diversified in order to mitigate concentration of market risk, credit risk, and foreign currency risk. The investment managers, or the Finance Director, have discretion to purchase, sell, or hold the specific securities that will be used to meet the Plan's investment objectives.

#### **Custodian**

The policies for safekeeping and custody are intended to mitigate custodial credit risk. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Plans, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold as well as movement of assets into and out of the Plans' accounts.

#### **Co-Trustee**

The City of Columbia may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administration of the Plans' assets.

Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the City of Columbia to assist in meeting its responsibilities and obligations to administer Plans' assets prudently.

Investments shall be made by the director of finance or the director's designee under the direction and review of the investment committee. The investment committee shall establish a general policy for investments, and the fund shall be invested by the director of finance in accordance with that policy. The investment committee shall review the investments from time to time as it shall deem appropriate. The director of finance shall make a quarterly report of investments and disbursements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

All expenses for such expenses must be customary and reasonable, and will be borne by the Plans as deemed appropriate and necessary.

#### **Definitions — For purposes of this Investment Policy, the following terms shall be defined as set forth herein.**

- **Plan** shall mean the City of Columbia's Police Retirement Plan & Firefighters' Retirement Plans, as jointly invested.
- **Investment Committee** shall refer to the body established to review the investments as specified by applicable ordinance.
- **Fiduciary** shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Plan assets.

- **Investment Manager** shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Plan assets.
- **Investment Manager Consultant** shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
- **Securities** shall refer to marketable investment securities which are defined as acceptable in this statement.
- **Investment Horizon** shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is Perpetuity.

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## Section 3 - Assignment of Responsibility

### Responsibility of the Investment Committee

Investments shall be made by the director of finance or the director's designee under the direction and review of the investment committee. The investment committee shall establish a general policy for investments, and the fund shall be invested by the director of finance in accordance with that policy. The investment committee shall review the investments from time to time as it shall deem appropriate. The director of finance shall make a quarterly report of investments and disbursements. The policies of the committee shall be advisory and subject to the review of the city council which may affirm or reject such policies and direct the director of finance's investments accordingly. (See Section 18-24 of the City of Columbia's Code of Ordinances.)

### Responsibility of the Police Retirement Board

The Police Retirement Board shall oversee and establish policies for the police retirement trust, advise the city council and the director of finance upon the administration of the fund, shall hear appeals from the decisions of the director of finance in accordance with the provisions of this article and such additional rules as it shall adopt. The board shall also have exclusive original jurisdiction to receive, hear and rule upon all appeals from decisions of the administrator for benefits from the fund under the contested case provisions of chapter 536 RSMo. In addition, the board shall advise the council in order that a high degree of care is exercised to keep the police retirement fund safely invested in such securities as will afford the greatest return consistent with safety of principal, but such investments shall be limited to such securities as are, or may be eligible by the laws of the State of Missouri. (See Section 18-38 of the City of Columbia's Code of Ordinances.)

### Responsibility of the Firefighters' Retirement Board

The Firefighters' Retirement Board shall oversee and establish policies for the fire retirement trust, advise the city council and the director of finance upon the administration of the fund, shall hear appeals from the decisions of the director of finance in accordance with the provisions of this article and such additional rules as it shall adopt. The board shall also have exclusive original jurisdiction to receive, hear and rule upon all appeals from decisions of the administrator for benefits from the fund under the contested case provisions of chapter 536 RSMo. In addition, the board shall advise the city council in order that a high degree of care is exercised to keep the firefighter's retirement fund safely invested in such securities as will afford the greatest return consistent with safety of principal, but such investments shall be limited to such securities as are, or may be eligible by the laws of the State of Missouri. (See Section 18-63 of the City of Columbia's Code of Ordinances.)

### Additional Responsibilities

The Investment Committee, the Boards, and the Finance Director are charged by law with the responsibility for the management of the assets of the Plan. They shall discharge their duties solely in the interest of the Plan, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. They shall be governed by Chapter 18 of the City Ordinances and by Missouri law. The specific responsibilities relating to the investment management of Plan assets include:

- Projecting the Plan's financial needs, and communicating such needs to the appropriate parties on a timely basis.
- Determining the Plan's risk tolerance and investment horizon, and communicating these to the appropriate parties.
- Recommending to the City Council reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Plan's assets.
- Prudently and diligently selecting qualified investment professionals, including Investment Managers, Investment Consultants, and Custodians.
- Regularly evaluating the performance of the Investment Managers to assure adherence to policy guidelines and monitor investment objective progress.

- Developing and enacting proper control procedures; i.e. replacing Investment Managers due to fundamental change in investment management process, or failure to comply with established guidelines.

### **Responsibility of the Investment Managers**

Each Investment Manager, or the City Finance Director, must acknowledge in writing its acceptance of responsibility as a fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager include:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Reporting, on a timely basis, quarterly investment performance results.
- Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Plan's investment management.
- Informing the Finance Director regarding any qualitative change to investment management organization: i.e. changes in portfolio management personnel, ownership changes, investment philosophy, etc.
- Voting proxies, if requested by the Director of Finance, on behalf of the Plan, and communicating such voting records to the Finance Director on a timely basis.
- Investment Managers can communicate all of the above through the Investment Manager Consultant to the Finance Director, or directly to the Finance Director if there is no Investment Manager Consultant.

### **Responsibility of the Investment Manager Consultant**

The Investment Manager Consultant is to monitor that the standards outlined meet all criteria for: market risk, credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The Investment Manager Consultant's role is that of a non-discretionary advisor to the Finance Director and to the Investment Committee, and the Police & Fire Retirement Boards of the City of Columbia. Investment advice concerning the investment management of Fund assets will be offered by the Investment Manager Consultant, and will be consistent with the investment objectives, policies, guidelines, and constraints as established in this statement. Specific responsibilities of the Investment Manager Consultant include:

- Assisting in the development and periodic review of investment policy.
- Conducting investment manager searches when requested by the Finance Director.
- Providing "due diligence", or research, on the Investment Managers, Mutual Funds, and Alternative Investments.
- Monitoring the performance of the Investment Managers to provide the Finance Director with the ability to determine the progress toward the investment objectives. Reporting daily online, monthly and audited reports quarterly.
- Monitoring adherence of Investment Managers' holding to the Investment Policy Statement.
- Communicating matters of policy, manager research, and manager performance to the Finance Director.
- Reviewing Plan investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Retirement Boards.
- Provide ongoing informal education on relevant topics.

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## Section 4 - Investment Objectives

### General Investment Principles

- Investments shall be made solely in the interest of the beneficiaries of the Plan.
- The Plan shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.
- Investment of the Plan shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
- The City of Columbia may employ one or more investment managers of varying styles and philosophies to attain the Plan's objectives.
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.
- Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
- Understanding that risk is present in all types of securities and investment styles, the Retirement Boards recognize that some risk is necessary to produce long-term investment results that are sufficient to meet the Plan's objectives. However, the investment managers are to make reasonable efforts to control risks, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment styles and objectives.
- Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.
- All investments shall be in compliance with Missouri Law, City of Columbia's Code of Ordinances, and in accordance with the City Council approved Investment Policy.

### Specific Investment Strategies and Goals

Actuarial Return as recommended by the Actuary and approved by the Board. The investment goal(s) above are the objectives of the aggregate Plan, and are not meant to be imposed on each investment account. The goal of each investment manager, over the investment horizon, shall be to:

- Meet or exceed the market index, or blended market index, selected and agreed upon by the City of Columbia that most closely corresponds to the style of investment management. Display an overall level of risk in the portfolio which is consistent with the risk associated with their appropriate benchmark. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each investment manager, if any, may be set by the City's Director of Finance. Each manager shall receive a written statement outlining the manager's specific goals and constraints as they differ from those objectives of the entire Plan.



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## Section 5 - Risk & Liquidity

### Definition of Risk

The Retirement Boards realize that there are many ways to define risk. They believe that any person or organization involved in the process of managing the City of Columbia's Police & Fire Pension assets understands how they define risk so that the assets are managed in a manner consistent with the Plan's objectives and investment strategy as designed in this statement of investment policy. For purposes of this Investment Policy, risk is defined as **the probability of not meeting the fund's liabilities or cash flow requirements.**

### Liquidity Requirements

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Finance Director will periodically provide investment consultant with an estimate of expected net cash flow. The Finance Director will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

After giving consideration to the Plan's longer-term objectives and liquidity requirements, the Investment Policy requires at least 90.00% of Plan assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Plan, with a minimal impact on market price.

### Diversification of Investment Managers

In order to achieve a prudent level of portfolio diversification, the Investment Policy requires:

- the securities of any one company should not exceed 5.00%. The total of all government or government agency securities are not to exceed 50% of the plan.
- there is no required level of diversification for industries.
- there is no required level of diversification for individual Treasury securities.
- there is no required level of diversification for total allocation to Treasury securities.

### Guidelines for Fixed Income Investments and Cash Equivalents

- Plan assets may also be invested in high yield and emerging market debt, provided that the allocation to these issues not exceed more than 5% of the total Plan.
- No more than 10% of the total market value of the Plan may be invested in non-U.S. dollar denominated securities without prior approval by the City Council.
- Money market funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade (BBB- by Standard & Poors or Baa3 by Moody's).

### Guidelines for Equity Investments

- Investments in emerging market equities may not exceed 5% of the total Plan.

## Section 6 - Asset Allocation

### Aggregate Plan Asset Allocation Guidelines

Investment management of assets of the Plan shall be in accordance with the following asset allocation guidelines (at market value). Note, the below percentages reflect the manager allocations, not underlying holdings. The only exception is high yield and emerging markets limits, which will be determined by underlying holdings.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>	
Equity	30%	55%	70%	
Fixed Income	30%	45%	70%	
Real Estate / Alts	0%	0%	10%	
Cash	0%	0%	10%	

<u>Asset Sub-Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Large Cap Equities	15%	26%	40%
Small/Mid Equities	5%	14%	20%
Non-US Equities	10%	15%	25%
Emerging Markets	0%	0%	5%
US Fixed Income	30%	41%	70%
Non-US Fixed Income	0%	0%	10%
High Yield Fixed Income	0%	4%	5%
Real Estate/Alternatives	0%	0%	10%
Cash Equivalents	0%	0%	10%

In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Finance Director will instruct the Investment Managers to bring the portfolios into compliance with these guidelines as promptly and prudently as possible.

In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible.

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## Section 7 - Investment Guidelines

### Allowable Equity Securities

- Common stocks
- Convertible notes & bonds
- Convertible preferred stock
- Non-US common, or preferred stock
- ADR's of non-US Corporations
- Mutual Funds that invest in equities

Rule 144a securities only if held in mutual funds. No Rule 144(a) securities may be purchased directly.

### Allowable Fixed Income Securities

- US Government & Agency securities  
TIPS
- Corporate notes & bonds
- Mortgage backed bonds
- Preferred stock
- Collateralized Mortgage Obligations (CMO's)
- Non-US Fixed Income Securities
- Mutual Funds that invest in debt securities

### Allowable Cash Equivalent Securities

- Treasury bills
- Money market funds
- STIF funds
- Commercial paper
- Banker's acceptances
- Repurchase agreements
- Certificates of deposit

### Prohibited Equity Securities

### Prohibited Fixed Income Securities

- Collateralized Debt Obligations (CDO)

### Prohibited Cash Equivalent Securities

- Bank Loans

**Other Securities not listed must have prior authorization by the City Council. There is a prohibition on the purchase of derivative securities, either directly or through a repurchase agreement.**