

Council Bill No. PR 181-09

A POLICY RESOLUTION

adopting the City of Columbia, Missouri Police and
Firefighters' Retirement Plan Investment Policy
Guidelines.

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF COLUMBIA, MISSOURI,
AS FOLLOWS:

SECTION 1. The City Council adopts the City of Columbia, Missouri Police
and Firefighters' Retirement Plan Investment Policy Guidelines dated May 29, 2009, a
copy of which, marked "Exhibit A" is attached to and made a part of this resolution.

ADOPTED this 17th day of August, 2009.

***City of Columbia, Missouri
Police and Firefighters' Retirement Plan***

Investment Policy Guidelines

Revised May 29, 2009

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the City of Columbia Police and Firefighters' Retirement Plan by its Trustees. The investment policy will be reviewed at least annually by the Trustees of the City of Columbia Police and Firefighters' Retirement Plan.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Board of Trustees of the City of Columbia Police and Firefighters' Retirement Plan in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives for Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Ensure that the Fund assets are managed pursuant to the legal provisions of the City. Article IV, Section 22 of the City Charter and Section 2-208 of the Code of Ordinances of the City of Columbia provide that the Director of Finance is designated as investment officer of the city and is responsible for investment decisions and activities. Further, Section 18-24 of Ordinances of the City of Columbia directs the Investment Committee of the Police and Firefighters' Retirement Plan to establish a general policy for investments. The Investment Committee hereby establishes written policies for the operation of the investment program for the Police and Firefighters' Retirement Plan which shall be subject to approval of the Police and Firefighters' Retirement Boards. These policies shall include explicit delegation authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of these policies.
6. Establish the relevant investment horizon for which Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DEFINITIONS

1. "Fund" shall mean the City of Columbia Police and Firefighters' Retirement Plan.
2. "Board of Trustees" shall refer to the governing board established to administer the Fund as specified within Chapter 18 of the Code of Ordinances of the City.
3. "Fiduciary" shall mean the standard of prudence to be applied by the investment officer/managers under the "Prudent Person" rule, which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The prudent person rule shall be applied in the context of managing the overall assets of the Police and Firefighters' Retirement Plan.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets. "Internal investment manager" shall refer to an investment manager who is also an employee of the City. "External investment manager" shall refer to an investment manager who is NOT an employee of the City.
5. "Securities" shall refer to the marketable investment securities which are defined as acceptable investments.
6. "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 the plan is long-term.
7. "Administrator" shall refer to the Finance Director of the City of Columbia as established in Section 18-22 of the Ordinances of the City.

DELEGATION OF AUTHORITY

The Board of Trustees of the City of Columbia Police and Firefighters' Retirement Plan is a fiduciary and is responsible for direction and monitoring the investment management of Fund assets. As such, the Board of Trustees is authorized to delegate certain responsibilities to professional experts in various fields. These include but are not limited to:

1. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specified securities that will be used to meet the Fund's investment objectives. The investment manager(s) will assume fiduciary responsibility for the management of the funds under their control.

2. Custodian. The Board of Trustees may appoint an outside individual or entity, such as a bank trust department, to be custodian. The custodian will assume fiduciary responsibility for the administration of Fund assets.
3. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Trustees to assist in meeting its responsibilities and obligations to administer the Fund assets prudently.

The Board of Trustees will have ultimate control of Fund assets in Investment Manager allocations. The Board of Trustees will not reserve any control over daily investment decisions; those decisions will be the responsibility of the Investment Managers selected. Managers will be held responsible and accountable to achieve the objectives herein stated and operate within applicable laws and regulations.

If such experts employed are also deemed to be fiduciaries they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Board of Trustees of the City of Columbia Police and Firefighters' Retirement Fund

The Board of Trustees is charged by law with the responsibility for the management of the assets of the Fund. The Board of Trustees shall discharge its duties solely in the interest of the Fund with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Board of Trustees relating to the investment management of Fund assets include:

1. Adhering to the guidelines pursuant to the provisions of Article IV, Section 22 of the City Charter, and Sections 2-208 and Chapter 18 of the Code of Ordinances of the City of Columbia.
2. Projecting the Fund's financial needs, and communicating such needs to the Investment Managers on a timely basis.
3. Determining the Fund's risk tolerance and investment horizon, and communicating these to the appropriate parties.
4. Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Fund's assets.

5. Prudently and diligently selecting qualified investment professionals, including Investment Manager(s), Investment Consultant(s), and Custodian(s).
6. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitor investment objective progress.
7. Developing and enacting proper control procedures: For example, replacing Investment Manager(s) due to fundamental change in investment management process, or failure to comply with established guidelines.
8. Reviewing overall investment performance of entire Fund and its Investment Managers no less than quarterly.

RESPONSIBILITY OF THE INVESTMENT MANAGER(S)

Each Investment Manager, both internal and external, must acknowledge in writing its acceptance of responsibility as a fiduciary under Missouri Law and other applicable regulations. 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(s) include:

1. Making discretionary investment management decisions including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the specific guidelines established for each manager.
2. Reporting, on a timely basis, quarterly investment performance results.
3. 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 Fund's investment management.
4. Informing the Board of Trustees regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, litigation, etc.
5. Responding to voting proxies as designated by board instruction. Generally, external managers will be required to vote proxies on behalf of the Fund and communicate such voting records to the Board of Trustees on a timely basis. Internal managers will be required to forward voting proxies to a board member as designated by the Board of Trustees.

GENERAL INVESTMENT PRINCIPALS

1. Investments shall be made solely in the interest of the participants and beneficiaries of the Fund and for the exclusive purpose of providing benefits accrued there under and defraying the reasonable expenses of administration.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses.
4. The Board of Trustees may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital – 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.
2. Risk Aversion – Understanding that risk is present in all types of securities and investment styles, the Board of Trustees recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Funds objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style, objectives and expected returns.
3. Adherences to Investment Discipline – Investment Managers are expected to adhere to the investment styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the City of Columbia Police and Firefighters Retirement Fund is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objectives in the investment management for Fund assets shall be:

Income and Growth – To achieve a balanced return of current income and modest growth of principal.

Preservation of Capital – To minimize the probability of loss of principal over the investment horizon. Emphasis is placed on minimizing return volatility rather than maximizing total return.

Preservation of Purchasing Power After Spending – To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of fund assets. Risk control is an important element in the investment of Fund assets.

Liquidity – To ensure the ability to meet all expected or unexpected cash flow needs by investing in assets which can be sold readily and efficiently.

The secondary objective in the investment management of Fund assets shall be:

Long-Term Growth of Capital – To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal for the investment return on the aggregate Fund assets to exceed:

The rate of inflation as measured by the Consumer Price Index by 3.0%

The return of a balanced market index comprised of 50% S&P 500, 50% Intermediate Treasuries.

The assumed actuarial rate of return.

Furthermore, it is the long-term goal for the investment return on the aggregate Fund assets to provide income sufficient to meet the Fund's liabilities and cash flow distribution needs within established acceptable risk parameters while minimizing the need for growth in the City's and plan members' contribution rates.

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment manager (if more than one manager is used). The goal of each Investment Manager, over the investment horizon, shall be to:

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

Specific investment goals and constraints for each Investment Manager, if any, shall be incorporated as part of this statement of investment policy. Each Investment Manager shall receive a written statement outlining his specific goals and constraints as they differ from those objectives of the entire Fund.

DEFINITION OF RISK

The Board of Trustees realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the City of Columbia Missouri Police and Firefighters' Retirement Plan assets understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and strategy as designed in this statement of investment policy. The Board of Trustees defines risk as:

The probability of losing money over any time period

The probability of losing money over the Fund's investment horizon

The probability of not maintaining purchasing power over the Fund's investment time horizon

The probability of not meeting the Fund's investment objectives

The probability of not meeting the Fund's liabilities or cash flow requirements

The probability that the investment returns of the Fund's assets fail to meet or exceed the return of the specified investment goals

High volatility (fluctuation) of investment returns

The possibility of surprises (upside or downside) in investment returns

VOLATILITY OF RETURNS

The Board of Trustees understands that in order to achieve its objectives for Fund assets, the Fund will experience volatility of returns and fluctuations of market value.

LIQUIDITY

The Board of Trustees will notify the Investment Manager(s) in a timely manner, to allow sufficient time to build up any liquid reserves necessary to meet cash flow obligations.

MARKETABILITY OF ASSETS

The Board of Trustees requires that a significant portion of Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

AUTHORIZED INVESTMENT SECURITIES

The Investment Manager(s) shall have the authority to purchase the following types of securities as investment instruments for the Police and Firefighters' Retirement Plan as directed by the Board of Trustees:

1. Mutual Funds
2. Common Stock
3. Preferred Stock
4. Real Estate Mortgages
5. Corporate debt securities including bonds and prime commercial paper
6. Debt obligations of the U.S. Treasury and any federal agencies or instrumentalities
7. Repurchase agreements backed by securities that are consistent with the city's overall policy concerning repurchase agreements and collateral requirements.
8. Mortgage-backed and/or asset-backed securities
9. Money Market Funds
10. Certificates of deposit issued by banks or savings and loan institutions
11. Prime bankers acceptances
12. Taxable municipal debt instruments

Securities that carry a rating by an industry-recognized rating agency are restricted at the time of purchase to the equivalent of an A or better rating as rated by Moody's or Standard and Poors. In the event that a security in the portfolio is downgraded below A rating, the security's credit risk shall be reviewed at least quarterly until it is sold or matures

DERIVATIVE INVESTMENTS

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMO's (PAC bonds, IO's, PO's, residual

bonds, etc.), and interest rate swaps, among others. The Board of Trustees feels that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Board of Trustees will take a conservative posture on derivative securities in order to maintain its risk adverse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form general policy on derivatives. **Unless a specified type of derivative security is allowed in this document or individual Manager Guidelines, the Investment Manager(s) may not invest Fund assets in derivative investments.**

ASSET ALLOCATION POLICY

The financial assets of retirement plans can generally be categorized in four investment classes as listed below. After reviewing the long term risk and return relationships of the general investment classes available to the Police and Firefighters' Retirement Plan within the context of the rate of return target and risk tolerance, the following asset allocation is hereby established as a target using a market value basis:

	<u>Asset Allocation Target %</u>	<u>Acceptable Variance %</u>
Equity (Foreign Equity 10% maximum)	50%	15%
Fixed Income	50%	15%
Other	0%	5%

Actual asset allocations of the Police and Firefighters' Retirement Plan may vary from the above target in order to take advantage of current market conditions but should remain within the "Acceptable Variance" indicated above. Any asset allocation variance that exceeds the acceptable variance established above will require the consent of the Board of Trustees.

The Board of Trustees may employ Investment Managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such Investment Managers will receive written direction from the Board of Trustees regarding specified objectives and guidelines.

In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Board of Trustees will instruct the Investment Manager(s) to bring the portfolio(s) into compliance in a prudent manner.

ASSET ALLOCATION CATEGORIES

For allocation purposes, the categorization of "Authorized Investment Securities" listed previously should be determined as follows: A mutual fund investment (Item 1), would be classified as either an equity investment or a fixed income investment based on the fund's stated investment objective. Any mutual fund that consistently maintains a minimum of 65% of its holdings in equity securities would be classified as an equity investment. Any mutual fund that consistently maintains a minimum of 65% in fixed income securities would be classified as a fixed income investment. Any mutual funds that do not fit within either of the two categories described should be considered split between equities and fixed income based on the actual analysis of holdings.

Items 2 and 3 (common stock and preferred stock) are defined as equity allocation categories. All other securities listed as "Authorized Investment Securities" (items 4 through 12) should be considered fixed income allocation categories. In addition, items 7 and 9 should be considered cash equivalents along with any other security from any other category with a fixed maturity of less than one year.

Cash and cash equivalents should generally be maintained at 5% or less of the aggregate portfolio unless the Trustees approve a variance.

REPORTING RESPONSIBILITIES

The Administrator and/or external managers shall provide reports at least quarterly to the Boards with complete information regarding investment performance for the period. Such reports shall be submitted in a standard format developed and approved jointly by the Investment Committee and Administrator or External Managers.

Prohibited Assets

Prohibited investments include, but are not limited to the following:

1. Commodities
2. Private Placements
3. Options
4. Limited Partnerships
5. Venture-Capital Investments
6. Real Estate Properties
7. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMO's

Prohibited Transactions

1. Short Selling
2. Margin Transactions
3. Purchase of commodities or options

4. Direct lending
5. Securities lending of owned securities. Securities not directly owned by the fund are permitted for lending; i.e., securities owned through mutual funds, money market funds.

DIVERSIFICATION FOR INVESTMENT MANAGERS

The Board of Trustees does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed 5% of the assets managed by any single Investment Manager, and no more than 10% of the assets managed by any single Investment Manager should be invested in any one industry. Since mutual funds have limited reporting requirements thereby making compliance with this restriction difficult to insure on a continuing basis, Investment Managers should monitor compliance with this requirement as closely as possible based on available reporting.

Individual treasury securities may represent up to 50% of the total Fund assets and up to 100% of the Funds total fixed income position.

SELECTION OF INVESTMENT MANAGERS

The Board of Trustee's selection of Investment Manager(s) must be based on prudent due diligence procedures and must be consistent with City of Columbia purchasing guidelines. A qualifying External Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board of Trustees requires that each Investment Manager provide in writing an acknowledgment of fiduciary responsibility to the City of Columbia Missouri Police and Firefighters' Retirement Plan and of receipt of Investment Policy Guidelines.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board of Trustees intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate an external manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization

Investment Managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organization and business matters, and other qualitative factors that may impact their ability to achieve investment results.

SAFEKEEPING AND CUSTODY

To protect against potential fraud and embezzlement, the financial assets of the Plan shall be secured through third-party custody and safekeeping procedures. Investment officials shall be bonded to protect the public against possible embezzlement and malfeasance. Book-entry securities and collateralized securities such as repurchase agreements shall be acquired using the delivery versus payment method.

CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Finance Advisory Committee of the City Council any material financial interest in financial institutions that conduct business with the City of Columbia, and they shall further disclose any large personal financial positions that could be related to the performance of the City's portfolio.

INTERNAL CONTROLS

There should be established a system of internal controls. The internal controls shall be reviewed with the Internal Auditor of the City and shall be examined annually with the independent auditor within the context of the annual City audit. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

REVIEW OF INVESTMENT POLICIES

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement the Investment Committee shall review this policy statement at least annually and report any conclusions to the Boards.