



# UBS House View Presentation

**Chief Investment Office GWM**

**May 2021**

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# House View: Overview

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- US stocks continue to make record highs, propelled by a strong corporate earnings season and outlook, ongoing COVID-19 inoculations, and signs of further fiscal stimulus on the horizon.
- **Coronavirus cases remain elevated** both in the US and across much of Europe, but have continued their decline from recent peaks as vaccination campaigns pick up speed. A full economic recovery will require vaccines to be distributed broadly, and until this takes place, businesses and consumers will continue to deal with a “social-distanced” economy operating well below capacity.
- **Extraordinarily supportive global monetary and fiscal policy** has helped calm markets and provide businesses with enough relief to keep their employees on the payroll. Even so, containment efforts have come at a heavy cost, resulting in **the sharpest contraction for the global economy in history**.
- Our market scenarios are determined by how quickly economic activity can normalize, how effectively government action will offset the economic cost of containment, and the impact of potential geopolitical risks.
- In our central scenario, public fear of the virus continues to decline as sufficient vaccinations allow for relaxed mobility restrictions. We see fiscal impulses fading gradually as governments adapt to the recovery, while central banks stay accommodative, leaving real rates low and stable over the next year. We expect the US to take a multilateral approach to trade policy and see developed countries' GDP returning to pre-crisis levels by 4Q21.
- **Asset class preferences:** In light of the unprecedented monetary and fiscal stimulus both in the US and globally, we have **a risk-on preference within equities and fixed income**.
  - Within fixed income, we like **senior loans**, which are floating rate and should be insulated from the rise in Treasury yields that we expect through the remainder of 2021.
  - To benefit from the cyclical rebound, we have **preferences for developed market (US and ex-US) small-cap stocks**. We have a style preference for US value over growth. These size and style preferences are supported by our outlook for cyclical markets to outperform thanks to rising rates, GDP growth, and economic reopening. We also have a most preferred view on **emerging market equities**, which should benefit from increased economic activity, a rebound in commodity prices and a weaker US dollar.
  - We see opportunities in **oil**, which should benefit from an increase in mobility as economies reopen.

# Risk assets continue to move higher

## Performance, select asset classes

	1 month	YTD 2021	Q1 2021	FY 2020
Cash	0.0%	0.0%	0.0%	0.5%
US Gov't FI (short)	0.0%	0.0%	-0.1%	3.2%
US Gov't FI (intermediate)	0.1%	-2.4%	-2.9%	7.7%
US Gov't FI (long)	1.6%	-11.8%	-14.2%	18.1%
US TIPS	0.8%	-0.3%	-1.5%	11.0%
US Municipal FI	1.0%	0.7%	-0.4%	5.2%
US IG Corp FI	1.1%	-3.5%	-4.5%	9.4%
US HY Corp FI	1.3%	1.9%	0.9%	6.1%
EM FI (Hard)	1.7%	-2.6%	-4.5%	5.3%
EM FI (Local)	2.6%	-4.3%	-6.7%	2.7%
US All-cap	5.6%	12.3%	6.3%	20.9%
US Large cap growth	8.4%	8.7%	0.9%	38.5%
US Large cap value	3.1%	15.5%	11.3%	2.8%
US Mid cap	5.9%	14.8%	8.1%	17.1%
US Small cap	3.7%	16.8%	12.7%	20.0%
Int'l Developed Markets	3.7%	7.5%	3.5%	7.8%
Emerging Markets	4.3%	5.9%	2.3%	18.3%
Preferreds	1.6%	0.9%	-0.5%	7.4%
MLPs	5.1%	29.5%	22.0%	-28.7%
US Real Estate	5.5%	16.5%	8.9%	-8.0%
Senior loans	0.4%	1.4%	1.0%	2.8%

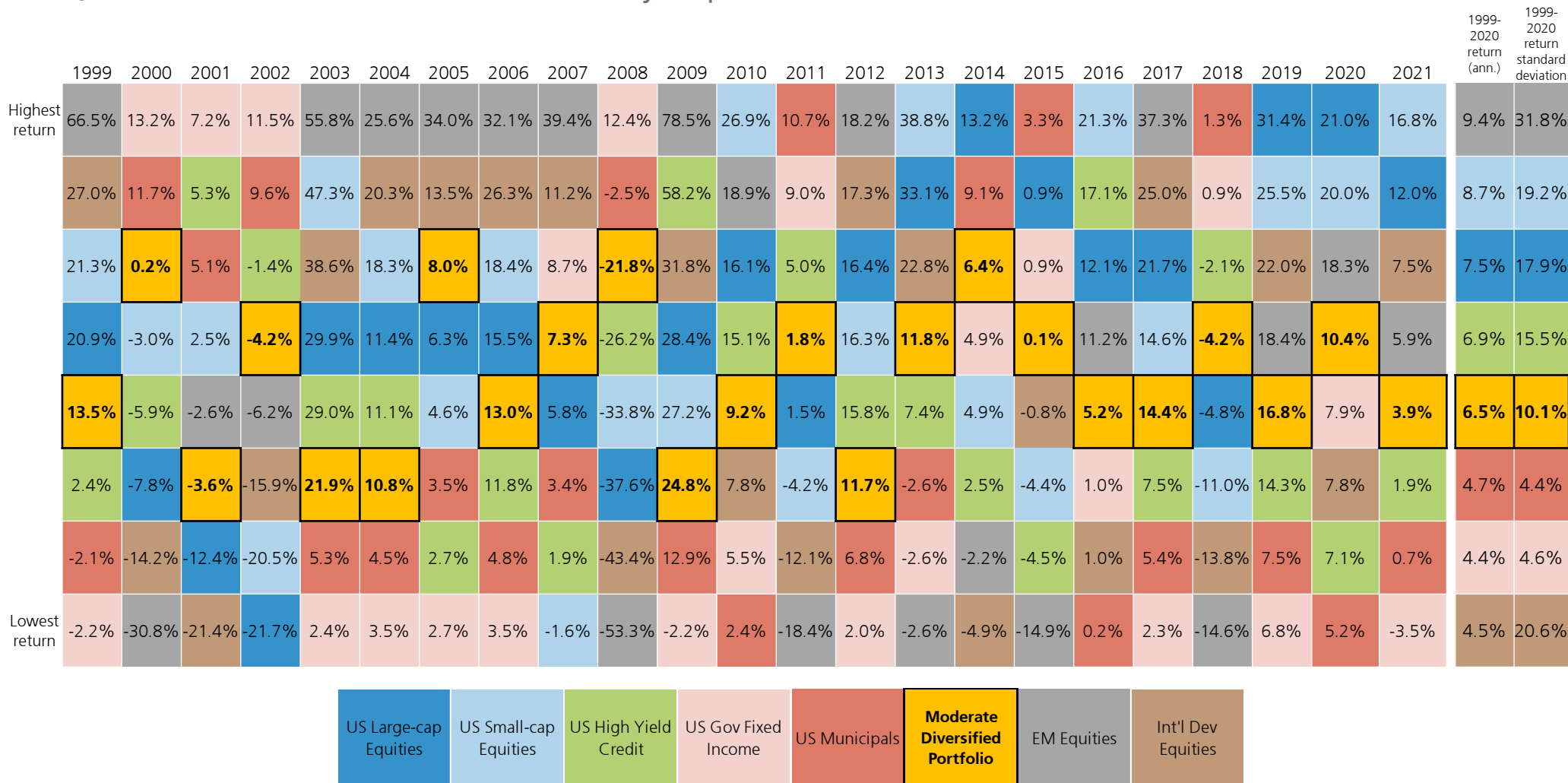
Source: Bloomberg, UBS, as of 27 April 2021



The views expressed in this slide belong to CIO Americas, GWM

# ...supporting balanced portfolio returns so far this year...

## "Quilt chart" of select asset classes' calendar year performance

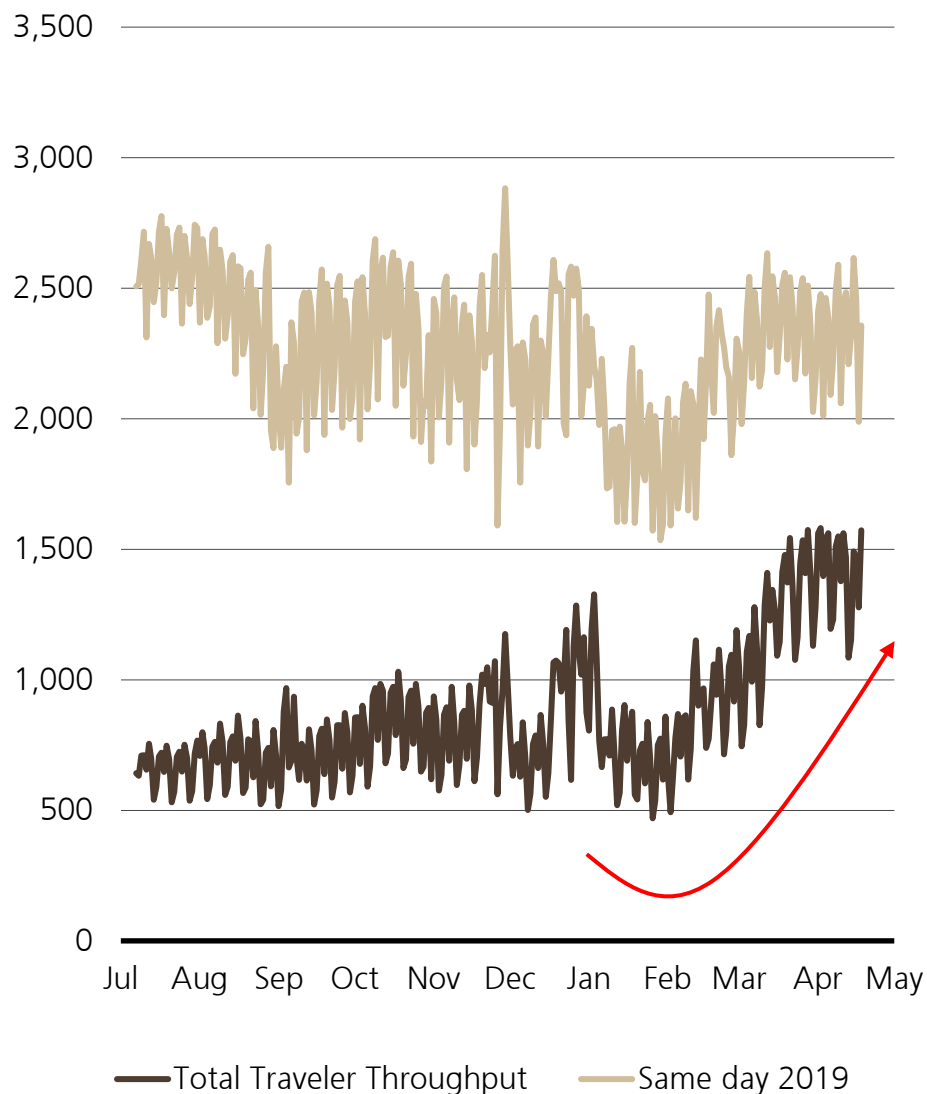


Source: Bloomberg, UBS, as of 27 April 2021

Note: The Moderate Diversified Portfolio performance calculations are a hypothetical analysis based on historical asset class returns. This backward-looking illustration assumes an investment in asset class indexes represented by the current Strategic Asset Allocation (SAA) for a moderate risk profile investor in a taxable portfolio without non-traditional assets. Performance calculations assume annual rebalancing, don't take into account any prior SAA for this investor profile, and include time periods before the SAA was created. See "2020 Strategic Asset Allocation and Capital Market Assumptions Update" for the detailed SAA. For periods prior to 2009, this illustration assumes that the Bloomberg Barclays EM Local Currency Government Total Return Index allocation (inception date of 4 July 2008) was invested fully in the Bloomberg Barclays EM USD Aggregate Total Return Index.

# Travel and leisure are showing signs of improvement...

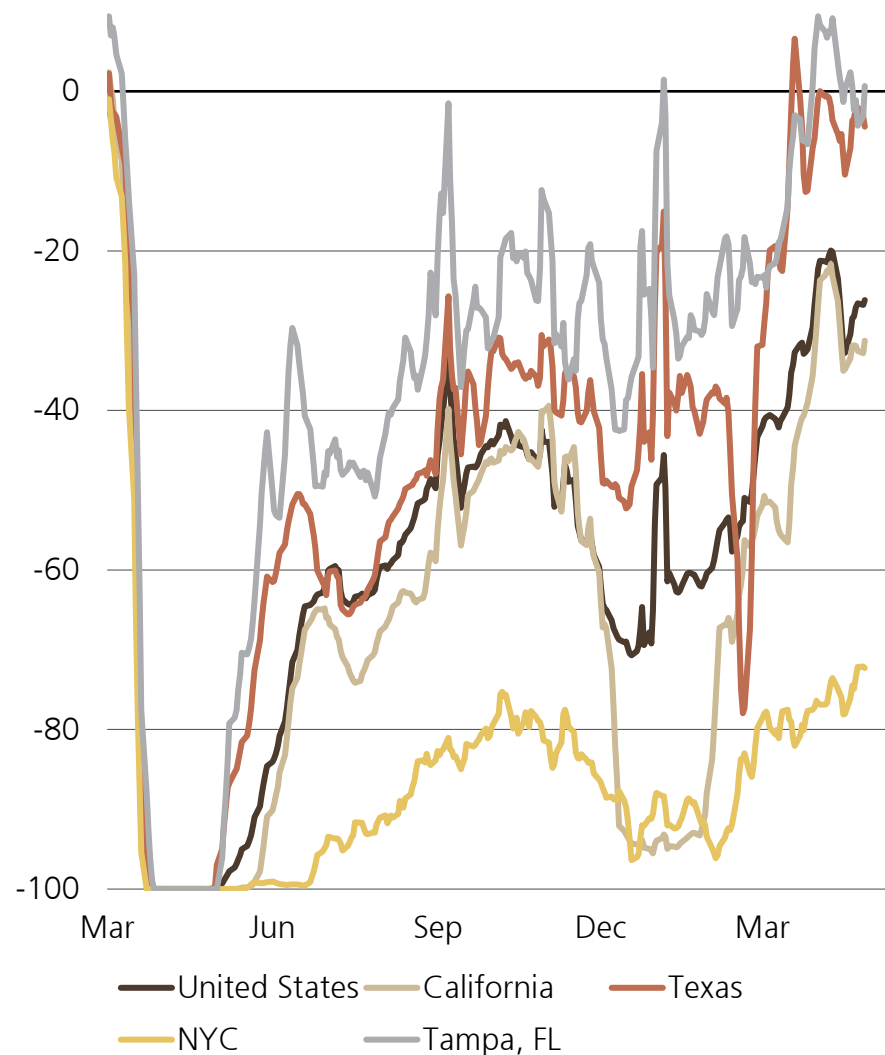
TSA passenger throughput, in thousands



Source: TSA.gov, UBS, as of 18 April 2021



Seated weekday-diners, % relative to 2019 baseline, 5-day moving average

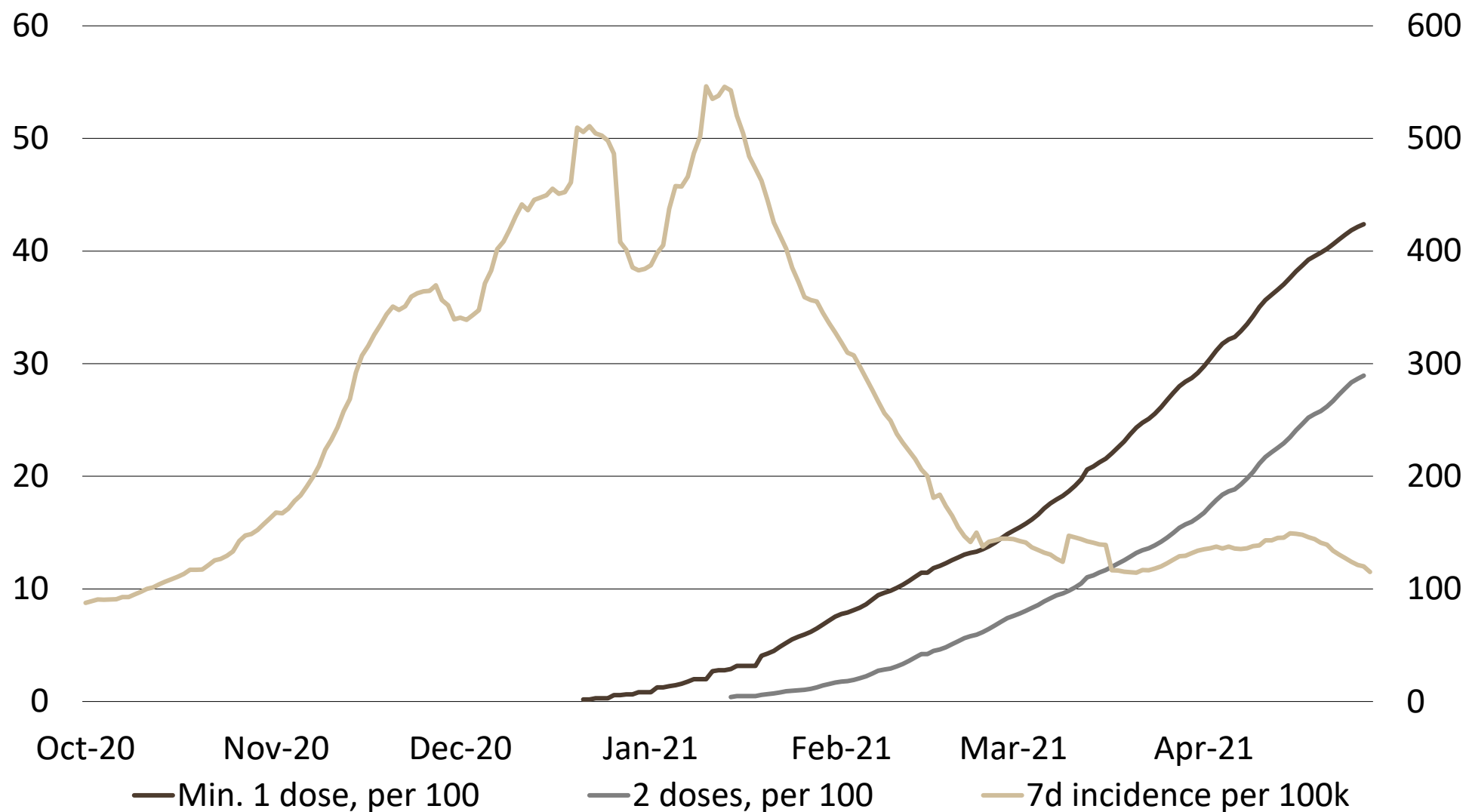


Source: Opentable, UBS, as of 28 April 2021

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# ...while hospitalizations are falling as vaccinations rise

US currently hospitalized COVID-19 patients (rhs) against vaccinations



Source: Bloomberg, UBS, 27 April 2021



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# Given the uncertainty, we focus on **three scenarios**

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## Upside

- Developed countries' GDP returns to pre-pandemic levels by 3Q21
- Central banks stay accommodative but reduce asset purchases by end 2021 as the recovery beats expectations and inflation rises more permanently
- Discretionary fiscal impulse continues to support the economy
- Vaccine rollout accelerates, reaching most adults in the US and Europe in 2Q, allowing for an earlier lifting of economic restrictions
- A partial rollback of existing trade tariffs raises global growth

## Central

- Developed countries' GDP returns to pre-pandemic levels by 4Q21
- Central banks stay accommodative, Fed discusses tapering, but only to commence in 2022 as inflation pressures subside
- Fiscal impulse fades moderately and gradually as governments adapt to economic recovery
- Limited public fear and restrictions fading sustainably with sufficient vaccinations by mid-2021, despite recurring outbreaks.
- The US takes a multilateral and predictable approach to trade

## Downside

- Developed countries' GDP returns to pre-pandemic levels in 2022
- Diminishing fiscal impulse unable to compensate for economic weakness
- Inflation rises more persistently and the Fed announces taper of asset purchases to start by end-2021
- Vaccine availability is delayed or mutations reduce efficacy by a lot
- Heightened public fear of COVID-19 and strict restrictions on business activity keep recurring through 2021
- Growth is hurt by renewed US-China trade tensions

# ...and markets still have upside potential

## UBS CIO central, downside, and upside December 2021 expectations

Index	Current (29 April)	December 2021 forecasts, projected change		
		Central scenario	Upside scenario	Downside scenario
S&P 500	4,183	4,400 5.2%	4,600 10.0%	3,500 -16.3%
Euro Stoxx 50	4,016	4,150 3.3%	4,500 12.0%	3,400 -15.3%
MSCI EM	1,365	1500 9.9%	1650 20.9%	1100 -19.4%
Swiss Market Index	11,109	12,000 8.0%	12,500 12.5%	10,000 -10.0%
US IG spread (bps)	94	100 bps 6	90 bps -4	225 bps 131
US HY spread (bps)	327	300 bps -27	270 bps -57	550 bps 223
EM USD bonds spread (bps)	328	340 bps 12	300 bps -28	550 bps 222

Source: UBS, Bloomberg, as of 29 April 2021



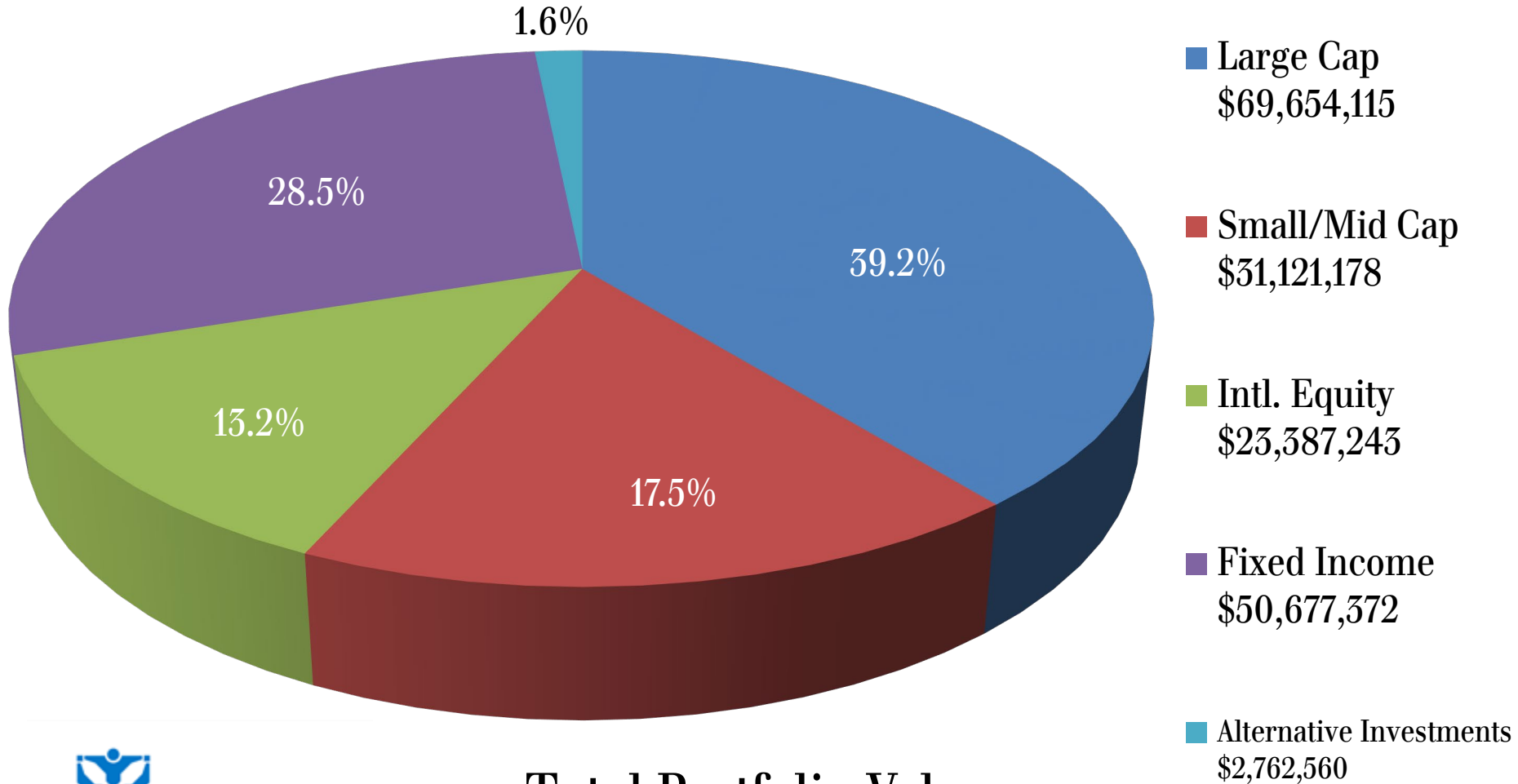
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# City of Columbia, MO

## Police & Fire Pension

Portfolio Value and allocation as of 4/30/2021



# City of Columbia/ MO

## Police & Fire Pension as-of 4/30/21



Manager	Account	Balance 4/30/21	Allocation 4/30/21	Fee / Expense Ratio	UBS	Total Fee
<b>Large Cap</b>			<b>39.22%</b>			
MFS Large Value	PT15367	\$ 14,106,778	7.94%	0.34%	0.08%	0.42%
O'Shaughnessy LCV	PT20095	\$ 13,271,283	7.47%	0.34%	0.08%	0.42%
Clearbridge Large Growth	PT27283	\$ 15,549,891	8.76%	0.34%	0.08%	0.42%
Vanguard Growth	PT18735	\$ 7,764,762	4.37%	0.04%	0.08%	0.12%
S&P 500 Index	PT26611	\$ 18,961,401	10.68%	0.03%	0.08%	0.11%
<b>Mid/Small</b>			<b>17.52%</b>			
Goldman Sachs Mid Value	PT15373	\$ 9,279,056	5.22%	0.38%	0.08%	0.46%
Eagle Asset Management	PT24746	\$ 9,866,580	5.56%	0.35%	0.08%	0.43%
Kayne Anderson Small Cap Core	PT27284	\$ 11,975,541	6.74%	0.42%	0.08%	0.50%
<b>Intl</b>			<b>13.17%</b>			
Delaware Intl Val	PT15370	\$ 11,280,180	6.35%	0.40%	0.08%	0.48%
Capital Group Intl	PT26616	\$ 12,107,063	6.82%	0.38%	0.08%	0.46%
<b>Fixed Income</b>			<b>28.53%</b>			
Ryan Labs Broad Market Enh	PT15377	\$ 16,306,151	9.18%	0.30%	0.08%	0.38%
DSAM Core Plus	PT21210	\$ 11,789,905	6.64%	0.23%	0.08%	0.31%
Metlife STAMP 1-5	PT26612	\$ 17,667,438	9.95%	0.25%	0.08%	0.33%
Chartwell Low Duration HY BB	PT19801	\$ 4,913,878	2.77%	0.50%	0.08%	0.58%
<b>Alternative Investments</b>			<b>1.56%</b>			
Canyon Partners Distressed Debt	PT15364	\$ 2,762,560	1.56%	1.50%	0.08%	1.58%
<b>Total</b>		<b>\$ 177,602,467</b>				<b>0.39%</b>

	Latest Quarter	Fiscal YTD	Year to Date	One Year	Three Years	Five Years	Since Inception
Beginning Mkt Value	\$172,042,711.65	\$151,122,707.70	\$166,276,592.69	\$137,088,005.70	\$132,963,626.35	\$118,286,322.09	\$29,386,201.26
Net Contributions	(\$163,098.46)	(\$726,355.20)	(\$479,568.24)	(\$1,713,812.41)	\$3,576,111.75	(\$1,923,029.40)	\$30,928,173.86
Investment Earnings	\$5,722,854.68	\$27,206,115.37	\$11,805,443.42	\$42,228,199.58	\$41,062,654.77	\$61,239,100.18	\$117,287,921.15
Ending Mkt Value	\$177,602,467.87	\$177,602,467.87	\$177,602,467.87	\$177,602,467.87	\$177,602,467.87	\$177,602,467.87	\$177,602,467.87

Latest Quarter	Fiscal YTD	Calendar YTD	One Year	Three Years	Five Years	Ten Years	Fifteen Years *	Since Inception **
3.33%	17.90%	7.00%	30.91%	11.58%	10.29%	7.70%	6.02%	6.90%

\* UBS inception 9/29/2011

\*\* Inception date 12/31/2000



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

Approved by the City Council on \_\_\_\_\_, 20~~14~~<sup>19</sup>

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

2~~7~~<sup>6</sup>% Russell 1000  
~~7~~<sup>8</sup>% Russell Mid Cap  
~~5~~<sup>6</sup>% Russell 2000  
15 % MSCI EAFE  
~~33~~<sup>41</sup> % Barclays Aggregate Bond Index  
~~3~~<sup>4</sup>% ML High Yield  
5% HFRI Fund of Funds  
5% NF-ODCE-EQ  
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 790.00% 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.

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>	
<b>Equity</b>	30%	<b>55%</b>	70%	
<b>Fixed Income</b>	<del>25</del> 30%	<del>35</del> 45%	<del>50</del> 70%	
<b>Real Estate / Alts</b>	0%	<del>10</del> 0%	<del>30</del> 40%	
<b>Cash</b>	0%	<b>0%</b>	10%	

<b>Asset Sub-Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Large Cap Equities	15%	<del>27</del> 26%	<del>45</del> 40%
Small/Mid Equities	5%	<del>13</del> 44%	20%
Non-US Equities	10%	<b>15%</b>	25%
Emerging Markets	0%	<b>0%</b>	5%
US Fixed Income	<del>22</del> 30%	<del>32</del> 44%	<del>40</del> 70%
Non-US Fixed Income	0%	<b>0%</b>	10%
High Yield Fixed Income	0%	<del>3</del> 4%	5%
Real Estate/Alternatives	0%	<del>5</del> 0%	10%
<u>Alternatives</u>	<u>0%</u>	<u>5%</u>	<u>20%</u>
Cash Equivalents	0%	<b>0%</b>	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. The purchase or repurchase of derivative securities is prohibited.**

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

Approved by the City Council on \_\_\_\_\_, 2021

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

27% Russell 1000  
7% Russell Mid Cap  
5% Russell 2000  
15 % MSCI EAFE  
33 % Barclays Aggregate Bond Index  
3% ML High Yield  
5% HFRI Fund of Funds  
5% NF-ODCE-EQ  
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 70.00% 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.

<b><u>Asset Class</u></b>	<b><u>Minimum</u></b>	<b><u>Target</u></b>	<b><u>Maximum</u></b>	
<b>Equity</b>	30%	<b>55%</b>	70%	
<b>Fixed Income</b>	25%	<b>35%</b>	50%	
<b>Real Estate / Alts</b>	0%	<b>10%</b>	30%	
<b>Cash</b>	0%	<b>0%</b>	10%	

<b><u>Asset Sub-Class</u></b>	<b><u>Minimum</u></b>	<b><u>Target</u></b>	<b><u>Maximum</u></b>
Large Cap Equities	15%	<b>27%</b>	45%
Small/Mid Equities	5%	<b>13%</b>	20%
Non-US Equities	10%	<b>15%</b>	25%
Emerging Markets	0%	<b>0%</b>	5%
US Fixed Income	22%	<b>32%</b>	40%
Non-US Fixed Income	0%	<b>0%</b>	10%
High Yield Fixed Income	0%	<b>3%</b>	5%
Real Estate	0%	<b>5%</b>	10%
Alternatives	0%	<b>5%</b>	20%
Cash Equivalents	0%	<b>0%</b>	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.

### Prohibited Equity Securities

### 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

### Prohibited Fixed Income Securities

- Collateralized Debt Obligations (CDO)

### Allowable Cash Equivalent Securities

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

### Prohibited Cash Equivalent Securities

- Bank Loans

**Other Securities not listed must have prior authorization by the City Council. The purchase or repurchase of derivative securities is prohibited.**



# Appendix

## Statement of Risk

**Equities** - Stock market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables.

**Fixed income** - Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment-grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed-coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-US tax consequences of owning any securities referenced in this report.

**Preferred securities** - Prospective investors should consult their tax advisors concerning the federal, state, local, and non-US tax consequences of owning preferred stocks. Preferred stocks are subject to market value fluctuations, given changes in the level of interest rates. For example, if interest rates rise, the value of these securities could decline. If preferred stocks are sold prior to maturity, price and yield may vary. Adverse changes in the credit quality of the issuer may negatively affect the market value of the securities. Most preferred securities may be redeemed at par after five years. If this occurs, holders of the securities may be faced with a reinvestment decision at lower future rates. Preferred stocks are also subject to other risks, including illiquidity and certain special redemption provisions.

**Municipal bonds** - Although historical default rates are very low, all municipal bonds carry credit risk, with the degree of risk largely following the particular bond's sector. Additionally, all municipal bonds feature valuation, return, and liquidity risk. Valuation tends to follow internal and external factors, including the level of interest rates, bond ratings, supply factors, and media reporting. These can be difficult or impossible to project accurately. Also, most municipal bonds are callable and/or subject to earlier-than-expected redemption, which can reduce an investor's total return. Because of the large number of municipal issuers and credit structures, not all bonds can be easily or quickly sold on the open market.

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UBS does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of UBS research reports.

## Explanations about asset classes

Our preferences represent the longer-term allocation of assets that is deemed suitable for a particular investor and were developed and approved by the US Investment Strategy Committee. Our preferences are provided for illustrative purposes only and will differ among investors according to their individual circumstances, risk tolerance, return objectives and time horizon. Therefore, our preferences in this publication may not be suitable for all investors or investment goals and should not be used as the sole basis of any investment decision. Minimum net worth requirements may apply to allocations to non-traditional assets. As always, please consult your UBS Financial Advisor to see how our preferences should be applied or modified according to your individual profile and investment goals.

Our preferences does not assure profits or prevent against losses from an investment portfolio or accounts in a declining market.

# Appendix

## Emerging Market Investments

Investors should be aware that Emerging Market assets are subject to, amongst others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. CIO GWM generally recommends only those securities it believes have been registered under Federal U.S. registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, CIO GWM may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.

Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

## Nontraditional Assets

**Nontraditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments).**

Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments

- (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds;
- (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment;
- (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss;
- (4) are long-term, illiquid investments; there is generally no secondary market for the interests of a fund, and none is expected to develop;
- (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer;
- (6) may not be required to provide periodic pricing or valuation information to investors;
- (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors;
- (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

**Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-US securities and illiquid investments.

**Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.

**Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.

**Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.

**Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in US dollars, changes in the exchange rate between the US dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a US investor.

# Appendix

## Global Investment Process and Committee Description

The UBS investment process is designed to achieve replicable, high-quality results through applying intellectual rigor, strong process governance, clear responsibility and a culture of challenge.

Based on the analyses and assessments conducted and vetted throughout the investment process, the Chief Investment Officer (CIO) formulates the UBS Wealth Management Investment House View preferences at the Global Investment Committee (GIC). Senior investment professionals from UBS, complemented by selected external experts, debate and rigorously challenge the investment strategy to ensure consistency and risk control.

## Global Investment Committee Composition

The GIC comprises top market and investment expertise from UBS:

- |                        |                   |                   |                         |
|------------------------|-------------------|-------------------|-------------------------|
| • Mark Haefele (Chair) | • Solita Marcelli | • Tan Min Lin     | • Themis Themistocleous |
| • Paul Donovan         | • Bruno Marxer(*) | • Adrian Zuercher | • Mark Anderson         |

(\*) Business area distinct from Chief Investment Office Global Wealth Management

## US Investment Strategy Committee description

We recognize that a globally derived house view is most effective when complemented by local perspective and application. As such, UBS has formed a Global Wealth Management US Investment Strategy Committee.

US Investment Strategy Committee Composition

- |                   |                       |                     |
|-------------------|-----------------------|---------------------|
| • Solita Marcelli | • Jason Draho (chair) | • Leslie Falconio   |
| • David Lefkowitz | • Brian Rose          | • Daniel Scansaroli |

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## Deviations from Benchmark Allocations

The sector views represent degrees of preference relative to the S&P 500 benchmark allocation: - = moderately less preferred, - - = less preferred, - - - = least preferred, + = moderately preferred, ++ = preferred, +++ = most preferred

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