

**INVESTMENT POLICY STATEMENT**

**FOR**

**CITY OF SANTA ROSA SECTION 115 TRUST**

**PEMHCA OTHER POST-EMPLOYMENT BENEFIT**  
**(“OPEB”) FUND**

*Adopted April 16, 2024*

## TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
Purpose .....	1
Investment Authority .....	2
Statement of Investment Objectives .....	3
Investment Guidelines .....	4
Time Horizon	
Liquidity and Diversification	
Asset Allocation	
Rebalancing Philosophy	
Risk Tolerance	
Performance Expectations	
Selection of Investment Managers.....	5
Guidelines for Portfolio Holdings .....	5
Direct Investments by Advisor	
Limitations on Managers' Portfolios	
Portfolio Risk Hedging	
Prohibited Portfolio Investments	
Safekeeping	
Control Procedures .....	7
Review of Investment Objectives	
Review of Investment Performance	
Voting of Proxies	
Adoption of Investment Policy Statement.....	9

The City of Santa Rosa has established a Section 115 Trust, known as the City of Santa Rosa Section 115 Trust, one account in the Trust is the Santa Rosa PEMHCA Other Post-Employment Benefit (“OPEB”) Fund (the “Fund”). This Fund will be used to invest monies to fund the City’s unfunded liability owed to employees covered by the California Public Employee Retirement System (“CalPERS”) Public Employees’ Medical and Hospital Care Act (“PEMHCA”) The Santa Rosa City Council (“Council”) hereby adopts this Investment Policy Statement (“Policy Statement”) for the following purposes.

### **Purpose**

The main investment objective of the Fund is to achieve long-term growth of Fund assets by maximizing long-term rate of return on investments and minimizing risk of loss.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives, performance expectations, and investment guidelines for Fund assets.
2. Establish an appropriate investment strategy for managing all Fund assets, including an investment time horizon, risk tolerance ranges, and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Fund.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.
5. Comply with fiduciary, prudence, due diligence, and legal requirements for Fund assets.

### **Investment Authority**

An Investment Committee (“Committee”) will oversee certain policies and procedures related to the operation and administration of the Fund. The Committee will have authority to implement the investment policy and guidelines in the best interest of the Fund to best satisfy the purposes of the Fund. In implementing this Policy Statement, the Committee believes it may delegate certain functions to:

1. An investment advisor (“Advisor”) to assist the Committee in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist the Committee in establishing investment policy objectives and guidelines. The Advisor will adjust asset allocation for the Fund subject to the guidelines and limitations set forth in this Policy Statement. The Advisor will also select investment managers (“Managers”) and strategies consistent with its role as a fiduciary for the Fund. The investment vehicles allowed may include mutual funds,

commingled trusts, separate accounts, limited partnerships, and other investment vehicles deemed to be appropriate by the Advisor. The Advisor is also responsible for monitoring and reviewing investment managers, measuring and evaluating performance, and other tasks as deemed appropriate in its role as Advisor for Fund assets. The Advisor may also select investments with discretion to purchase, sell, or hold specific securities, such as Exchange Traded Funds, that will be used to meet the Fund's investment objectives. The Advisor shall never take possession of securities, cash, or other assets of the Fund, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission.

2. A custodian selected by the Fund to maintain possession of physical securities and records of street name securities owned by the Fund, 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 Fund.
3. A trustee appointed by the Fund, such as a bank trust department, if the Fund does not have its own Trustees, to assume fiduciary responsibility for the administration of Fund assets; provided, however, that if the Committee shall have appointed an investment advisor, then any trustee appointed under this paragraph shall have no authority with respect to selection of investments.
4. Specialists such as attorneys, auditors, actuaries, and consultants to assist the Committee in meeting its responsibilities and obligations to administer Fund assets prudently.

### **Statement of Investment Objectives**

The investment objectives of the Fund are as follows:

1. To invest assets of the Fund in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Fund beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of long-term liabilities and reasonable expenses of operation of the Fund.
3. To enhance the value of Fund assets in real terms over the long term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. Subject to performance expectations over the long term, to minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled "Performance Expectations".

## **Investment Guidelines**

Within this section of the Policy Statement, several terms will be used to articulate various investment concepts. The descriptions are meant to be general and may share investments otherwise considered to be in the same asset class. They are:

"Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are: domestic and international equities or equity funds, and certain real estate investments, focused on equity risk mitigation or equity-like returns.

"Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes are: fixed income securities, guaranteed investment contracts, and certain real estate investments, focused on interest rate risk mitigation or income investment-like returns.

"Real Return Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. Investments within the Real Return category can include inflation protected securities, commodities, and certain real estate investments.

### **Time Horizon**

The Fund's investment objectives are based on a long-term investment horizon ("Time Horizon") of ten years or longer. Interim fluctuations should be viewed with appropriate perspective. The Committee has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

### **Liquidity and Diversification**

In general, the Fund may hold some cash, cash equivalent, and/or money market funds for near-term Fund liabilities and expenses (the "Fund Distributions"). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments, or industries.

### Asset Allocation

The Committee believes that to achieve the greatest likelihood of meeting the Fund’s investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Fund’s target rate of return over the long-term, as described in the section titled “Performance Expectations”.

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
<b>Growth</b>		
Domestic Equity	13% - 53%	33%
International Equity	0% - 37%	17%
Other Equity	0% - 10%	0%
<b>Income</b>		
Fixed Income	30% - 70%	50%
Other Income	0% - 10%	0%
<b>Real Return Assets</b>	0% - 10%	0%
<b>Cash Equivalents</b>	0% - 50%	0%

The Advisor and each Manager will be evaluated against their peers on the performance of the total funds under their direct management.

### Rebalancing Philosophy

The asset allocation range established by this Policy Statement represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy Statement ranges. When allocations breach the specified ranges, the Advisor will rebalance the assets within the specified ranges. The Advisor may also rebalance based on market conditions.

### Risk Tolerance

Subject to investment objectives and performance expectations, the Fund will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon.

## Performance Expectations

Over the long-term, ten years or longer, the performance objective for the Fund will be to achieve an average total annual rate of return that is equal to or greater than the Fund's target investment rate of return. Additionally, it is expected that the annual rate of return on Fund assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Fund investments and blended benchmark comparisons for the Fund in its entirety.

## **Selection of Investment Managers**

The Advisor shall prudently select appropriate Managers to invest the assets of the Fund. Managers must meet the following criteria:

- The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS<sup>®</sup>), Securities & Exchange Commission (“SEC”), Financial Industry Regulatory Agency (“FINRA”) or industry recognized standards, as appropriate.
- The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most-favored-nation clauses). This information can be a copy of a recent Request for Proposal (“RFP”) completed by the Manager or regulatory disclosure.
- The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- The investment professionals making the investment decisions must have a minimum of three (3) years of experience managing similar strategies either at their current firm or at previous firms.
- Where other than common funds such as mutual funds or commingled trusts are utilized, the Manager must confirm receipt, understanding and adherence to this Policy Statement and any investment specific policies by signing a consent form provided to the Manager prior to investment of Fund assets.

## **Guidelines for Portfolio Holdings**

### Direct Investments by Advisor

Every effort shall be made, to the extent practical, prudent and appropriate, to select investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in the following sub-sections of the “Guidelines for Portfolio Holdings”). However, given the nature of the investments, it is recognized that there may be deviations between this Policy Statement and the objectives of these investments.

## Limitations on Managers' Portfolios

### EQUITIES

No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

International Equities. The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions and sectors.

Other Growth. These assets have growth characteristics but are not invested in broadly diversified equities. Examples of Other Growth assets include, but are not limited to, some forms of publicly traded real estate (REIT) with growth characteristics, convertible bonds, or other publicly traded assets that exhibit growth characteristics.

### FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets as calculated by the Advisor shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

Other Income. These assets have income characteristics but are not invested in broadly diversified fixed income. Examples of Other Income assets include, but are not limited to, some forms of publicly traded real estate (REIT) with income characteristics, preferred equities, or other publicly traded assets that exhibit income characteristics.

### REAL RETURN ASSETS

Real Return Assets typically consist of publicly traded commodities and infrastructure funds, Treasury Inflation Protected Securities (TIPS), and other assets expected to produce positive real returns after inflation.



## CASH EQUIVALENTS

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

### Portfolio Risk Hedging

Portfolio investments designed to hedge various risks including volatility risk, interest rate risk, etc. are allowed to the extent that the investments are not used for the sole purpose of leveraging Fund assets. One example of a hedge vehicle is an exchange traded fund (“ETF”) which takes short positions.

### Prohibited Investments

Except for purchase within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

### Safekeeping

All assets of the Fund shall be held by a custodian approved by the Committee for safekeeping of Fund assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Fund Agreement. Investments of the Fund not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

## Control Procedures

### Review of Investment Objectives

The Advisor shall review annually and report to the Committee the appropriateness of this Policy Statement for achieving the Fund’s stated objectives. It is not expected that this Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Policy Statement.

### Review of Investment Performance

The Advisor shall report on a quarterly basis to the Committee to review the investment performance of the Fund. In addition, the Advisor will be responsible for keeping the Committee advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Fund.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. Examples of benchmarks and indexes that will be used include the Russell 3000 Index for broad U.S. equity strategies; S&P 500 Index for large cap U.S. equities, Russell 2000 Index for small cap U.S. equities, MSCI ACWI ex-U.S. Index for broad based non-U.S. equity strategies; MSCI Europe, Australasia, and Far East (EAFE) Index for developed markets international equities, Bloomberg Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T-bill for cash equivalents. The Russell 3000 Index will be used to benchmark the U.S. equities portfolio; the MSCI ACWI ex-U.S. Index will be used to benchmark the non-U.S. equities portfolio; the Barclays U.S. Aggregate Bond Index will be used to benchmark the fixed income portfolio. The categories “Other” will be benchmarked against appropriate indices depending on the specific characteristics of the strategies and funds used.

### Voting of Proxies

The Committee recognizes that proxies are a significant and valuable tool in corporate governance. The voting rights of individual stocks held in separate accounts or collective, common, or pooled funds will be exercised by the investment managers in accordance with their own proxy voting policies. The voting rights of funds will be exercised by the Advisor.

## **Adoption of Investment Policy Statement**

Any changes and exceptions to this Policy Statement will be made in writing and adopted by the Committee and provided to Council, Advisor, Trustee and other Specialists. Once adopted, changes and exceptions will be delivered to each Manager, as appropriate, by the Advisor.

**Approved:**

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Chief Financial Officer

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Date