

**INVESTMENT POLICY STATEMENT**

**FOR**

**CITY OF COLORADO SPRINGS  
CEMETERY ENDOWMENT FUND**

*Established January 1995*

*Revised November 2011*

*Revised January 2016*

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The City of Colorado Springs has established an endowment, known as the Cemetery Endowment Fund (the "Fund"). The purpose of the Fund is to provide the funding for the perpetual maintenance of the cemeteries under the jurisdiction of the City of Colorado Springs, Colorado. The Chief Financial Officer is responsible for developing the Fund's overall objectives and guidelines.

### **Purpose**

The main investment objective of the Fund is to achieve long-term growth of the assets to preserve the ability of the Fund to meet its current and long-term spending policies while minimizing risk of realized losses on principal assets. To achieve these objectives, the definition of income is updated to refer to total return, including dividends and interest plus appreciation on investments. The 2006 Uniform Prudent Management of Institutional Funds Act ("UPMIFA") clarifies this definition as it relates to endowment funds.

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**

The Chief Financial Officer is responsible for developing the Fund's overall objectives and guidelines and has authority to implement the investment policy and guidelines in the best interest of the Fund to best satisfy the purposes of the Fund. The Chief Financial Officer is responsible for development and review of the investment policy, review of investment performance and investment decisions made by the investment advisor, and making changes, as necessary. The Chief Financial Officer is also responsible for selecting and monitoring the investment advisor, Endowment custodian and any other service providers necessary in the fulfillment of this policy and the Fund objectives and overseeing certain policies and procedures related to the operation and administration of the Fund.

In implementing this Policy Statement, the Chief Financial Officer maintains the responsibility outlined above but may delegate certain functions to:

1. An investment advisor ("Advisor") to assist the Chief Financial Officer in the investment process and to maintain compliance with this Policy Statement. The Advisor may assist the Chief Financial Officer in establishing investment policy objectives and guidelines. The Advisor will adjust the asset allocation within a reasonable time period, to ensure the portfolio remains substantially in compliance with the Asset Allocation Ranges, set forth in this Policy Statement and the Asset Allocation Targets, as determined by the Chief Financial Officer, in the Addendum. 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 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 is also responsible for monitoring and reviewing investment managers; measuring and evaluating performance versus appropriate benchmarks; and other tasks as deemed appropriate in its role as Advisor for Fund assets. 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 under the Investment Advisers Act of 1940.
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 Chief Financial Officer has 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 in meeting responsibilities and obligations to administer Fund assets prudently.
5. City staff within the Finance Department to assist with administrative and accounting tasks.

### **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 sufficiently diversified in order to minimize the impact of large losses from individual investments.

2. To provide for funding and anticipated withdrawals on a continual basis for spending policy needs and reasonable expenses for the 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. To minimize principal fluctuations, subject to performance expectations 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**

### Time Horizon

The Fund's investment objectives are based on a long-term investment horizon ("Time Horizon") of five to ten years or longer. Interim fluctuations should be viewed with appropriate perspective. The Chief Financial Officer 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 spending needs 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 Chief Financial Officer 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 ranges 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". The Chief Financial Officer has the authority to determine the asset allocations target by addendum.

<u>Asset Classes</u>	<u>Range</u>
Domestic Equity	10% - 60%
International Equity	0% - 40%
Fixed Income	20% - 80%
Real Estate Investment Trusts REITs	0% - 20%
Commodities	0% - 20%
Cash Equivalents	0% - 20%

The performance of the total funds under direct management of the Advisor and each Manager will be evaluated against an appropriate benchmark and peer group.

### 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, as soon as practical. 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. The Fund is expected to have an average standard deviation of approximately 10%, or less, over a 5–10-year period, based upon the target asset allocation.

### Performance Expectations

Over the long-term, five - 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 6%, sufficient to cover a combination of expected spending of 2.5%-3% annually plus inflation. 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:

1. The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission ("SEC"), Financial Industry Regulatory Agency ("FINRA") or industry recognized standards, as appropriate.
2. 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.
3. The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
4. 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.
5. 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.

## Permitted Securities & Market Sectors

Investments shall be placed in the following:

- Domestic Equity
  - Equity securities of U.S. issuers
- International Equity
  - Equity securities of non-U.S. issuers
- Fixed Income
  - Fixed income securities of U.S. and non-U.S. issuers including governments, quasi-government entities, municipalities, and corporations
  - Mortgage-backed securities
  - Asset-backed securities
- REITs
- Commodities (investment funds only)
- Cash Equivalents
  - Money-market instruments
- Investment Funds that are consistent with the aforementioned investment objectives
- Mutual Funds that invest in securities permitted by this Policy Statement
- Exchange Traded Funds (ETFs) that invest in securities permitted by this Policy Statement

### 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. 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. All assets need to be held in the name of the City of Colorado Springs.

### Limitations on Managers' Portfolios

#### EQUITIES

No more than 5% of the total portfolio valued at market at the time of purchase 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). The 5% limitation does not apply to ETFs or Mutual Funds.



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.

#### FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of the total portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies, ETFs, or Mutual Funds. 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").

## REAL ESTATE INVESTMENT TRUSTS (REITs)

A REIT, is a company that owns – and typically operates – income-producing real estate or real estate-related assets. REITs own many types of commercial real estate, including office and apartment buildings, warehouses, hospitals, shopping centers, hotels and commercial forests. Some REITs engage in financing real estate. No more than 20% of the total portfolio valued at market at the time of purchase may be invested in REITs. Excluding investment funds, exchange traded funds (ETF), and mutual fund holdings, no individual security holding shall exceed 5% of the portfolio at time of purchase.

## COMMODITIES

Goods that are virtually interchangeable with like kinds of each other, frequently represented by agricultural products, raw materials, industrial or precious metals, or chemicals. Commodities are most often used as inputs in the production of other goods or services. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade. Examples include crude oil and gold. No more than 20% of the total portfolio valued at market at the time of purchase may be invested in commodities. The commodities allocation shall be limited to investment funds only (no direct investment).

## CASH EQUIVALENTS

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

### 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. Direct investments in hedge funds or private equity funds are prohibited without prior approval by the Chief Financial Officer.

### Safekeeping

All assets of the Fund shall be held by a custodian approved by the Chief Financial Officer 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 Custodial 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 Performance

The Advisor shall provide quarterly reports to the Chief Financial Officer and meet on at least a semi-annual basis with the Chief Financial Officer to review the investment performance of the Fund. In addition, the Advisor will be responsible for keeping the Chief Financial Officer and designated City Staff 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, Barclays Capital Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T-bill for cash equivalents.

### Voting of Proxies

The Chief Financial Officer 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.

**Policy Statement Revisions**

This Policy Statement shall be reviewed annually by the Chief Financial Officer and may be amended by the City Council of Colorado Springs as conditions warrant.

## Addendum to Cemetery Endowment Fund Investment Policy Statement

### Asset Allocation Targets

The Chief Financial Officer has the authority to adjust the target asset allocations depending upon portfolio needs, market conditions and other factors that influence determination of the optimal diversification.

The Chief Financial Officer in consultation with the Investment Advisor has determined the current asset allocation targets to be the following:

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
Domestic Equity	10% - 60%	40%
International Equity	0% - 40%	17%
Fixed Income	20% - 80%	35%
Real Estate Investment Trusts (REITs)	0% - 20%	7%
Commodities	0% - 20%	1%
Cash Equivalents	0% - 20%	0%

**Approved:**

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Chief Financial Officer

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Date: