

*City of Birmingham*  
*Retirement and Relief System*

**Statement of Investment Policy**  
**Objectives & Guidelines**

**August 9, 2017**

## Statement of Investment Policy, Objectives, and Guidelines

### SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire City of Birmingham Retirement and Relief System.

### PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Board of Managers of the City of Birmingham Retirement and Relief System in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives for Retirement and Relief System assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Retirement and Relief System assets.
4. Establish a basis for evaluating investment results.
5. Manage Plan assets according to the prudent expert standards as established by existing law.
6. Establish the relevant investment horizon for which Retirement and Relief System assets will be managed.

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

### DELEGATION OF AUTHORITY

The Board of Managers of the City of Birmingham Retirement and Relief System is a fiduciary, and is responsible for directing and monitoring the investment management of Retirement and Relief System assets. As such, the Board of Managers is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant. The consultant may assist the Board of Managers in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate by the Board of Managers.

## Investment Policy Statement

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2. **Investment Manager.** The investment manager has discretion to purchase, sell, or hold the specific securities, consistent with State law that will be used to meet the Retirement and Relief System's investment objectives.
3. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Retirement and Relief System, 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 Retirement and Relief System accounts.
4. **Additional specialists** such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Managers to assist in meeting its responsibilities and obligations to administer Retirement and Relief System assets prudently.

The Board of Managers will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. 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 from the Board of Managers which they deem appropriate.

All expenses for such experts must be customary and reasonable, and will be borne by the Plan as deemed appropriate and necessary by the Board of Managers.

### DEFINITIONS

1. "Plan" or "Retirement and Relief System" shall mean the City of Birmingham Retirement and Relief System.
2. "Board of Managers" shall refer to the governing board established to administer the Retirement and Relief System as specified by applicable statute.
3. "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 Retirement and Relief System assets. Fiduciary shall include, but not be limited to, the Board of Managers, the Investment Management Consultant(s), the Custodian(s) and the Investment Managers.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Retirement and Relief System assets.
5. "Investment Management 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.

6. "Custodian" shall mean the entity that will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Plan, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales.
7. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
8. "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 Retirement and Relief System is 10 years.

## **ASSIGNMENT OF RESPONSIBILITY**

### **Responsibility of the Investment Consultant(s)**

The Investment Consultant's role is that of a non-discretionary advisor to the Board of Managers of the City of Birmingham Retirement and Relief System. The Investment Consultant shall be a fiduciary to the System and shall discharge its duties under this Investment Policy Statement as an expert and solely in the best interest of the City of Birmingham Retirement and Relief System. Investment advice and recommendations concerning the investment management of Retirement and Relief System assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Board of Managers.
3. Performing "due diligence" in research, monitoring and recommendations of Investment Managers.
4. Monitoring the performance of the Investment Manager(s) to provide the Board of Managers with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Board of Managers.
6. Reviewing Retirement and Relief System investment history, historical capital markets performance and the contents of this investment policy statement periodically to all members of the Board of Managers.
7. Periodically providing educational forums on investments to the Board of Managers.

### **Responsibility of the Investment Manager(s)**

Each Investment Manager 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(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Retirement and Relief System's investment management.
4. Informing the Board of Managers regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the Board of Managers, on behalf of the Retirement and Relief System, and communicating such voting records to the Board of Managers on a timely basis.

### **GENERAL INVESTMENT PRINCIPLES**

1. Investments shall be made solely in the interest of the participants and beneficiaries of the Retirement and Relief System and for the exclusive purpose of providing benefits accrued thereunder and defraying the reasonable expenses of administration.
2. The Retirement and Relief System shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Retirement and Relief System shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Board of Managers may employ one or more investment managers of varying styles and philosophies to attain the Retirement and Relief System's objectives.
5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

## INVESTMENT MANAGEMENT POLICY

1. **Preservation of Capital** - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. **Risk Aversion** - Understanding that risk is present in all types of securities and investment styles, the Board of Managers recognizes 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 risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. **Adherence to Investment Discipline** - 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.

## INVESTMENT OBJECTIVES

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

Specifically, the primary objective in the investment management for Retirement and Relief System assets shall be:

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

## SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the aggregate Plan assets to exceed:

An absolute rate of return of 7.5%.

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

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

## **DEFINITION OF RISK**

The Board of Managers realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Retirement and Relief System assets understands how it defines 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. The Board of Managers defines risk as:

The probability of not meeting the Retirement and Relief System's liabilities or cash flow requirements.

## **LIQUIDITY**

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

## **INVESTMENT GUIDELINES**

### **Allowable Assets**

1. **Cash Equivalents**
  - Treasury Bills and Notes
  - Short Term Investment Funds (STIF)
  
2. **Fixed Income Securities**
  - U.S. Government and Agency Securities
  - Corporate Bonds
  - Preferred Stock
  - Fixed Income Securities of U. S. Corporations
  - Mortgage Securities
  - International Bonds
  - Derivative Securities
  - Asset Backed Securities
  - Certificates of Deposit (FDIC)
  - Convertible Securities
  
3. **Equity Securities**
  - Common Stocks
  - Mutual Funds
  - Real Estate Investment Trusts (REITs)
  - Preferred Stocks
  - International Stocks
  - Derivative Securities
  - Convertible Securities
  
4. **Alternative Investments**

The Board of Managers shall select specific Managers authorized to conduct transactions in International Stocks. All foreign exchanges that are proposed for transactions must have prior approval of the Board of Managers.

**Prohibited Transactions**

Prohibited transactions by managers identified as Traditional Managers include, but are not limited to the following:

1. Short Selling
2. Margin Transactions

Managers identified as Alternative Managers shall be exempt from this restriction.

**Stock Exchanges**

To ensure marketability and liquidity, investment advisors will execute equity transactions through the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market or are Rule 144A Securities and International Exchanges approved by the Board. In the event that an Investment Manager determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, written approval is required from the Board of Managers.

**Asset Allocation Guidelines**

Investment management of the assets of the City of Birmingham Retirement and Relief System shall be in accordance with the following asset allocation guidelines:

1. Aggregate Retirement and Relief System Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	30%	70%
Fixed Income	15%	70%
Cash and Equivalents	0%	10%
Alternatives	0%	25%



2. The Board of Managers may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Retirement and Relief System, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Board of Managers regarding specific objectives and guidelines.
3. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Board of Managers will instruct the Investment Manager(s) to bring the portfolio(s) 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 Board of Managers expects that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Board of Managers. Notwithstanding the foregoing, the Board maintains its discretion to immediately terminate a Manager whether or not the above aggregate asset allocation guidelines are violated.

#### **Diversification for Investment Managers**

The Board of Managers does not believe it is necessary that securities held in the Plan represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 5% of the total fund, and no more than 25% of the total fund should be invested in any one industry.

#### **Guidelines for Fixed Income Investments**

1. Retirement and Relief System fixed income assets shall not be less than fifteen percent (15%) of the fair market value of all the funds available in the system for investment. Securities issued by any single non-guaranteed agency or entity may not constitute more than five percent (5%) of the fixed income allocation of the fund at the time of purchase.

#### **SELECTION OF INVESTMENT MANAGERS**

The Board of Managers' selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board of Managers requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the City of Birmingham Retirement and Relief System.

**INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

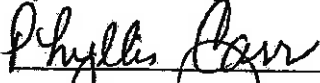
Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Board of Managers for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration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

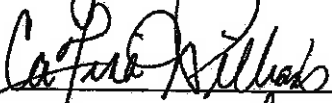
1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.
4. Asset allocation decisions that require removing the investment mandate from the overall portfolio allocation.

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

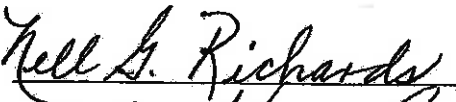
**INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Board of Managers plans to review investment policy at least annually. This statement of investment policy is adopted on August 9, 2017, by the Board of Managers of the City of Birmingham Retirement and Relief System whose signatures appear below.

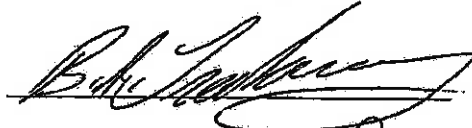
  
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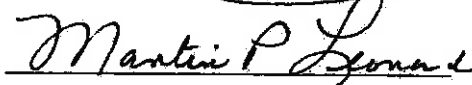
  
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