
STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

For The

CITY OF GAINESVILLE RETIREE HEALTH FUND

~~June 30, 2020~~ August 10, 2021

I. INTRODUCTION AND BACKGROUND

The City of Gainesville Retiree Health Insurance Fund is a benefit plan established by the City of Gainesville City Commission. The Fund is administered by the City Manager and is maintained to provide for the payment of a portion of health insurance premiums for persons eligible for Retiree Health Insurance coverage.

The City Commission has the responsibility to develop a policy for the investment of the assets of the Fund. The investment of the assets of the Fund must be consistent with the written investment policy adopted by the City Commission (Section 2-438 of the Gainesville City Code). The policies are structured to maximize the financial return to the Fund consistent with the risks incumbent in each investment and are structured to establish and maintain an appropriate diversification of the Fund's assets. To assist the City Commission in this function, they are authorized to engage the services of investment and actuarial consultants to provide expert assistance. The City Commission periodically undertakes studies to evaluate the potential consequence of alternative investment strategies on the long term well being of the Fund. In the view of its consultants and the City Commission, the investment program defined in this Statement will produce a result over the long term consistent with the Fund's primary objective of preserving and enhancing the purchasing power of assets.

In the implementation of the investment program, the Fund will employ investment managers who have demonstrated expertise with particular asset classes. Furthermore, the Fund's investment managers utilize a variety of investment approaches. This diversification of managers and investment approach should reduce the risk of loss and contribute to the attainment of a more consistent positive return. Nonetheless, there will be short term periods when the fund may experience negative returns. Such periods are not inconsistent with achievement of the targeted long term objective.

II. INVESTMENT POLICY AND OBJECTIVES

Based on analysis of the Fund assets and expected investment returns and risks associated with alternative asset mix strategies, the City adopted the following asset class targets, based on market value:

TRADITIONAL ASSET CLASSES	<u>% Range</u>	<u>% Target</u>
Equity		
Large Capitalization Value Manager	10.0% - 25.0% 10.0% - 30.0%	17.5% 20.0%
Large Capitalization Growth Manager	10.0% - 25.0% 10.0% - 30.0%	17.5% 20.0%
Small Capitalization Value Manager	5.0% - 15.0%	10.0%
Small Capitalization Growth Manager	5.0% - 15.0%	10.0%
Developed International Value Manager	5.0% - 15.0%	10.0%
Developed International Growth Manager	5.0% - 15.0%	10.0%
Total Equity	65% - 85% 65% - 90%	75.0% 80.0%
Fixed Income	0% - 10% 0% - 20%	5.0% 10.0%
Total Traditional Assets Classes	60% - 90% 80% - 100%	80.0% 90.0%
ALTERNATIVE ASSET CLASSES	<u>% Range</u>	<u>% Target</u>
Real Estate		
Public REIT (Equity)	0% - 5%	0.0%
Private Real Estate (Fixed)	5% - 15% 0% - 20%	10.0%
Total Real Estate	5% - 15% 0% - 20%	10.0%
Other Permitted Alternative Investments	0% - 15%	10.0% 0.0%
Total Alternative Asset Classes	5% - 30% 0% - 20%	20.0% 10.0%
TOTAL TRADITIONAL & ALTERNATIVE		100.0%

The ranges are established as maximum weightings in each respective asset class. If the investment manager determines a percentage of their allocation should be invested in cash, then they are permitted that flexibility and will be evaluated by their decisions accordingly.

Over time, it is the City's intention to direct cash flows toward the asset class(es) under-represented and away from the class(es) over-represented.

The General investment objectives of the City are as follows:

1. Establish a Prudent Investment Program

Although the Fund is not covered by the Employee Retirement Income Security Act of 1974 (ERISA), the assets of this Fund shall be invested in a manner consistent with the fiduciary standard set forth in ERISA, as though ERISA applied to the Fund; namely, (1) in accordance with the safeguards and diversity to which a prudent investor would adhere (2) and all transactions undertaken on behalf of the Fund must be for the sole interest of Plan participants and their beneficiaries to provide benefits and pay the expenses of the Fund. The Retiree Health Insurance Fund investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of trust assets.

2. Achieve Growth in Purchasing Power

Primary investment emphasis must be placed upon the consistent protection of the funds assets and growth performance, i.e., the achievement of adequate investment growth must not be at the expense of the protection of the assets over the investment horizon.

More specific investment objectives established by the City include the following:

- The Fund should earn a return over time exceeding the assumed actuarial rate of 7.9%. In addition, the Fund should earn a return greater than inflation, as measured by the Consumer Price Index, by 5.5% per year. It is also consistent with the City's objective to enhance the purchasing power of the Fund.
- Individual investment managers will not be measured against the aggregate fund objective stated above. They will be compared to appropriate market indices, and the performance of other managers who utilize a similar investment style.

III. TRADITIONAL ASSET CLASSES - INVESTMENT GUIDELINES

A. Liquidity Requirements

There is a requirement to maintain liquid reserves for the payment of medical benefits and expenses. Investment of cash balances in the MSILF Government Securities Portfolio is permitted. The City will review these projected cash flow requirements at least annually.

B. Passive Investment Vehicles

The Board may select a passive approach to invest in a particular asset class. This may be accomplished by using open-end mutual funds, Exchange Traded Funds (ETFs), or Separately Managed Accounts. The criteria used for active manager evaluation will not apply to passive investments. Investments may be made in Exchange Traded Funds (ETFs) and/or mutual funds on an interim basis during manager searches for asset classes that will continue to be actively managed.

C. Equities

The investment manager(s) are permitted to invest in equity securities (including convertible bonds) listed on the New York and principal regional and foreign (for foreign securities) exchanges. They may also invest in over-the-counter securities where an active market maker regulated by the NASD. Any investment not in the category listed above is prohibited.

The equity portion of each portfolio manager shall not:

1. Be more than 12.5% invested in the securities of any one company at market.
Exceptions are permitted when an unusual event occurs that causes the percentage in the company to exceed 12.5% (example – a merger or buyout). In these instances, The manager shall have a reasonable period to cure by reducing the position.
2. Make short sales.
3. Use margin or leverage.
4. Be invested in commodities.
5. Be invested in private real estate.
6. Be invested in " investment art objects."

7. Invest in Options, including the purchase, sale or writing of options unless options are "covered" by the corresponding security.
8. Be invested in warrants, although warrants issued in connection with stocks held by the fund may be sold, held, or converted by the investment manager at its discretion.

a.) Large Capitalization Value & Growth Stocks

Large capitalization stocks are expected to have the greatest weighting in the Insurance Trust Fund. They are expected to provide more consistent returns over time than our other equity styles. The objective is to maximize investment return over a market cycle by investing in large capitalization equities having the potential to generate investment returns exceeding a passively managed large stock index.

Large capitalization equity manager performance parameters include the following:

- Performance within the top half of a Universe of Large Capitalization Value, Growth, or Core Managers.
- Performance that exceeds the Russell 1000 Value, Russell 1000 Growth, or S&P 500 Indexes.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

b.) Mid/Small Capitalization Stocks

Mid/Small capitalization stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective is to maximize investment return over a market cycle by investing in mid/small capitalization equities having the potential to generate investment returns exceeding a passively managed mid/small stock index.

Mid/Small capitalization equity manager performance parameters include the following:

- Performance within the top half of a Universe of Mid/Small Capitalization Core/Value or Growth Managers
- Performance that exceeds the appropriate Russell Indexes.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle for the mid/small capitalization market.

c.) Developed International Stocks

Developed International Stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective is to maximize investment return over a market cycle by investing in international securities through American Depositary Receipts (ADRs). These equities should generate investment returns exceeding a passively managed international index.

Developed international equity manager performance parameters include the following:

- Exceed MSCI EAFE – Net Dividend or MSCI All Country World ex. USA Indexes.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle of the international market.

d.) Emerging Markets Stocks

Emerging Markets Stocks are invested in countries with higher growth rates and therefore are expected to offer higher returns with higher volatility. The objective is to maximize investment return over a market cycle by investing in emerging markets securities through American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs). The managers are permitted to invest in closed-end country funds and exchange traded funds. These equities should generate investment returns exceeding a passively managed emerging markets index.

Emerging markets equity manager performance parameters include the following:

- Exceed MSCI Emerging Markets (Gross) Index.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle of the emerging markets.

D. Fixed Income

Fixed income securities shall be invested entirely in marketable debt securities issued or guaranteed by either (a) the United States Government or its agencies, (b) domestic corporations (including industrial and utilities) (c) domestic banks and other US financial institutions, or (d) state and municipal bonds.. All securities must hold an investment grade rating by a major rating service. Any investments not under the criteria listed above are prohibited from being purchased. Securities ratings reduced beneath the three highest classifications after purchase should be sold by the portfolio manager within a reasonable period of time as determined by the manager.

Restrictions on fixed income include the following:

1. Except for Treasury and Agency obligations, the debt portion of the Fund shall contain no more than ten percent (10%) of a given issuer irrespective of the number of differing issues. Other diversification standards should be developed and applied by the Investment Manager(s).
2. If commercial paper is used it must be only of the highest quality (A-1 or P-1).
3. Private placement debt is not permissible.

Fixed income manager(s) performance parameters include the following:

- Performance on a risk-adjusted basis that exceeds the Bloomberg Barclays Intermediate Aggregate Bond Index.
- Achieve the above objectives within a time horizon of a minimum of three to five years or a full market cycle.

III. ALTERNATIVE ASSET CLASSES - INVESTMENT GUIDELINES

Alternative asset classes historically have low to moderate correlation to market indices. Alternative asset classes are expected to improve total portfolio diversification and provide opportunities for higher incremental returns over the long-term. Many of the asset categories are expected to generate absolute returns

(positive returns regardless of market environment) versus relative returns (returns comparative to a given benchmark).

Alternative asset classes guidelines differ from traditional asset classes guidelines. Alternative asset managers may use leverage and derivatives, may short securities, generally have higher fees, typically have reduced liquidity, and performance is dependent primarily on advisor skill.

A. Real Estate

Real Estate Investment Trusts (REITs)

The investment managers are permitted to invest in real estate investment trusts (REITs) listed on the New York and principal regional and foreign (for foreign securities) exchanges. They may also invest in over-the-counter securities for which there is an active market maker regulated by the National Association of Securities Dealers (NASD).

Private Real Estate

The investment managers are permitted to invest in private real estate. Private real estate will be purchased through an institutional vehicle. The institutional vehicle provides diversification of property type and geographical location and provides a competitive price structure.

a.) Real Estate Investment Trusts (REITs)

Real Estate Investment Trust securities are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long-term. The objective is to maximize investment return over a market cycle by investment in real estate through REITs. These equities should generate investment returns exceeding a passively managed REIT index.

REIT equity manager performance parameters include the following:

- Exceed National Association of Real Estate Investment Trusts (NAREIT) Equity REIT Index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the NAREIT Equity REIT Index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle of the REIT market.

b.) Private Real Estate

Private real estate investments are expected to improve total portfolio diversification and provide income and opportunities for higher incremental returns in the long-term. The objective is to maximize investment return over a market cycle by investment in real estate through private ownership. These private real estate investments should generate investment returns exceeding a passively managed private real estate index.

Private real estate investment performance parameters include the following:

- Exceed the National Council of Real Estate Investment Fiduciaries (NCREIF) Index.
- Performance comparable to the Bloomberg Barclays Aggregate Bond Index
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the NCREIF Index or the Bloomberg Barclays Aggregate Bond Index without a corresponding increase in performance above the index.
- Achieve the above objectives within a time horizon of five to ten years or a full real estate market cycle.

B. Other Permitted Alternative Investments

To provide additional diversification and hedge against portfolio tail risk, the Fund may be invested in liquid alternative investment managers or mutual funds as deemed appropriate. Mutual funds allowed may include, but not be limited to: infrastructure, long/short equity, long/short credit, absolute return, equity hedge. The performance for selected alternative investment funds will be measured against appropriate market indices within a time horizon of five to ten years or a full market cycle.

IV. REVIEW OF INVESTMENT MANAGERS

The City will meet quarterly with the consultants. Additionally, the City will review investment results provided by the consultants monthly.

These reviews will focus on:

- the managers' adherence to the policy guidelines;
- comparison of managers' results against funds using similar policies (in terms of the diversification, volatility, style, etc.);
- the opportunities available in equity and debt markets; and
- material changes in the managers' organizations, such as philosophical and personnel changes, acquisitions or losses of major accounts, etc.

V. PERFORMANCE EXPECTATIONS

The most important performance expectation is the achievement of investment results consistent with the Plan's investment policy statement. A 5.5% real return is a reasonable expectation in light of this policy. The City recognizes this real return objective may not be attainable during some time periods, it is a long term goal. To ensure investment opportunities available over a specific time period are fairly evaluated, the City will use comparative performance statistics to evaluate investment results. Performance of the Plan will be compared to other funds utilizing a similar investment policy.

VI. Policy Review

Periodic reviews of the Policy Statement will be made by the City to evaluate its appropriateness. Any modification of policy guidelines shall be approved by the City and acknowledged in writing by the investment consultant.

Adopted _____ Signed _____
Date Authorized Signer

Investment Consultant's Acknowledgment

The undersigned, as your investment consultant, acknowledge we have received the Statement of Investment Policy and Objectives ("Policy") for the City of Gainesville Retiree Health Fund, dated ~~June 30, 2020~~ **August 10, 2021**. We affirm we have read and understand said Policy and do hereby agree to monitor and assure each investment manager's compliance with the guidelines expressed including: maximum investments in any one company; permitted investments; performance comparisons & benchmarks used; and other restrictions that may be included therein. In the event a manager fails to comply with the investment restrictions set forth in the Policy (not performance) and such failure results in an investment loss, we agree to reimburse and make the plan whole for any such loss. Exceptions are permitted to the IPS when an unusual event occurs that causes an out-of-policy situation. The managers (at their discretion or at the consultant's direction) shall have a reasonable period of time to cure the exception.

Morgan Stanley Smith Barney through Graystone Consulting

By:

Authorized Graystone Consulting/Morgan Stanley Representative

Date