



Administrative Policy

Title: Investment Policy – Pension Stabilization Trust (Reso 2024-074)					
Administered By: Finance Department					
Policy No.	Issue Date	Revision Date	Dept. Head Approved	City Manager Approved	Mayor Approved
01200.606	06-15-22	07-03-24			

The document titled as follows and adopted pursuant to City Council Resolution 2024-074 is hereby adopted as an Administrative Policy with the Policy Number noted above:

Investment Policy
Pension Stabilization Trust
(07-03-24)

The City's Pension Stabilization Trust Investment Policy has been adopted by the City Council pursuant to a duly adopted resolution. Beginning on June 15, 2022, the investment Policy has also been administratively assigned Policy No. 01200-606.

The latest version of this Policy document is attached hereto and incorporated herein by reference.

City of Corona Pension Stabilization Trust

Investment Policy

Effective July 03, 2024

I. Background

The City of Corona Pension Stabilization Trust (the “Trust”) holds a pool of funds contributed for the benefit of retired participants of the Trust.

II. Purpose

This Investment Policy is intended to assist the Trust’s fiduciaries by ensuring that they follow a prudent process and make investment-related decisions in a prudent manner. This Policy will be reviewed at least annually with the Investment Manager. In the course of their review, the Trustees will consider the following:

- change in plan participant demographics,
- amended plan provisions that may have a material effect on cash flow needs or the investment horizon,
- any changes in asset allocation as recommended by the Investment Manager,
- actuarial reports, if any, and
- other factors deemed relevant to the Trust that might require amending the Policy.

This Investment Policy may be modified from time to time as determined by the Trustees.

III. Investment Objectives

The investment objectives for the Trust are:

- Long-term Growth of Assets: The Trust’s objective is to grow over time and increase its purchasing power by earning a total return in excess of inflation over multi-year periods. The Investment Manager will seek to minimize risk through diversification.

The Investment Manager acknowledges that the Trustees have adopted a long-term earnings target rate of return of 7.50% used in setting the Plan’s benefit levels. The Investment Manager shall alert the Trustees at any time that such long-term earnings target rate is not reasonable over a market cycle. The Trustees will periodically review the reasonableness of this target rate with the Investment Manager(s).

- Preservation of Capital: Another of the Trust’s objectives is to protect principal. Exposing the Trust to undue risk is to be avoided; however, the assumption of a moderate level of risk, commensurate with the growth objective, is warranted in pursuit of the investment goals. The Investment Manager and the Trustees recognize financial assets fluctuate in value and near-term results can diverge from long-term stated goals. The Investment Manager will seek to minimize risk through diversification. The Investment Manager will advise the Trustees from time to time on the reasonableness of their objectives in light of capital market conditions.
- Liquidity: To provide sufficient liquidity for periodic cash requirements.

These objectives are to be considered in conjunction with guidelines and restrictions set forth in this Policy.

IV. Roles and Responsibilities

Those responsible for the management of the Trust's investments include, but are not limited to the following. In addition to specific duties set forth throughout this Policy, the parties have the following general responsibilities.

The Board of Trustees

The Board of Trustees, as established by the Trust Agreement Governing the Pension Stabilization Trust effective January 19, 2022, and includes the City Treasurer, City Manager, Assistant City Manager, Finance Director, and Accounting Manager. The Trustees are responsible for:

- Hiring the Investment Manager
- Retaining other investment and legal counsel
- Establishing and maintaining the Investment Policy
- Monitoring the Investment Manager
- Evaluating the Trust's investment performance
- Communicating with participants concerning investment results

The Investment Managers

The Investment Managers are responsible for making reasonable investment decisions that are consistent with this Investment Policy, and the Investment Manager's contract with the Trust, including the specific Investment Guidelines set forth in Section VI therein, or as requested in writing by the Trust's fiduciaries. The Investment Manager shall allocate Trust assets consistent with this Policy and the specific Investment Guidelines, and deliver reports as described in Section XII below.

V. Selection of Investment Managers

The Trustees shall select the Investment Manager to manage the Trust assets within the criteria set forth by this Investment Policy. The evaluation process shall include requesting a bid proposal from each candidate. Each Investment Manager must meet certain minimum criteria:

- It should be a bank, insurance company, or investment management company or an investment adviser registered under the Investment Advisers Act of 1940.
- It must assume, in writing, investment fiduciary status concerning investments of the Trust.
- It must be operating in good standing with regulators and clients, with no material pending or concluded legal actions.
- It should provide detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, locations, fee schedule, and other relevant information.
- It must provide to the Trustees evidence of fidelity bonding and fiduciary liability insurance.
- It must be willing to supply references subject to client confidentiality.
- It must disclose all fees and costs and provide a detailed explanation of how fees are determined.

VI. Asset Class Restrictions and Investment Guidelines

The Investment Manager will seek to diversify the Trust across market sectors and individual securities to reduce portfolio risk and enhance returns. Excluding Treasury, agency obligations, exchange traded funds (ETFs), and mutual fund holdings, no individual security holding shall exceed 5% of the portfolio at time of purchase. Individually purchased fixed income securities must, at the time of purchase, have a credit rating of at least "Investment Grade" by one of more of the Nationally Recognized Statistical Rating Organization (NRSRO).

The Investment Manager will not invest in investment vehicles that cannot be 100% redeemed or sold within three (3) business days.

VII. Time Horizon

The recommended investment strategy is based upon an investment horizon of twenty years or more. The Trustees understands volatility of returns in the short-term and have agreed to view cyclical fluctuations with appropriate perspective. The Investment Manager will seek to minimize volatility through diversification.

VIII. Asset Allocation

The Investment Manager will be responsible for assisting the Trustees in establishing a prudent asset allocation for the Trust portfolio based on the particular goals, objectives, needs, risk tolerance and time horizon of the Trust portfolio. In doing so, the Trustees will seek to diversify the Trust portfolio within and across market sectors and individual securities to reduce portfolio risk and enhance return.

The Investment Manager shall allocate Trust assets consistent with the stated guidelines noted in Section VI above, the stated objectives set forth in Section III, and in accordance with the asset allocation set forth in this section. The allocation of Trust assets shall be maintained within the Acceptable Range and the Policy Mix, as noted below. Individual managers with stock/bond mandates will be responsible for rebalancing as necessary.

Should the Trustees hire stock-only and bond-only managers, the Trustees will act to shift assets between managers to rebalance, including the hiring of an investment adviser.

<u>Policy Mix</u>	<u>Acceptable Range</u>
Cash & Fixed Income	10%-30%
Commodities (not direct investment)	0%-5%
Global Equities	50%-80%
Real Estate Investment Trusts (REITs)	0%-15%

IX. Portfolio Rebalancing

Over time, each asset class may build up to the maximum point within the Acceptable Range. At least quarterly, the Investment Manager will rebalance the portfolio allocations to assure that asset allocation proportions remain within the Acceptable Range.

X. Permitted Securities & Market Sectors

Investments may be placed in the following:

- Fixed-income securities of U.S. and non-U.S. issuers including governments, quasi-government entities and corporations
- Money-market instruments
- Mortgage-backed securities
- Asset-backed securities
- Equity securities of U.S. and non-U.S. issuers
- Publicly traded Real Estate Investment Trusts (REITs)

- Commingled funds that are consistent with the aforementioned investment objectives
- Mutual Funds that invest in securities permitted by this investment policy
- Exchange Traded Funds (ETF) that invest in securities permitted by this investment policy

XI. Prohibited Transactions

- Margin purchases
- Direct investment in real estate or direct real estate lending (the Investment Manager may buy commingled funds that invest in real estate or real estate lending activities)
- Hedge funds
- Direct short sales of individual securities (the Investment Manager may buy commingled Funds that employ short sale techniques)
- Direct investment in commodities futures contracts (the Investment Manager may buy commingled funds that use futures contracts)
- Non-US dollar denominated investments (except the Investment Manager may buy commingled funds that purchase both US and non-US dollar denominated securities)
- Investment vehicles that have limited liquidity, i.e., any investment that may not be 100% redeemed or sold for cash within three (3) business days.

XII. Investment Manager Reports

A. Performance Measurement

The Investment Manager will make time-weighted rate of return measurements at quarterly intervals for the portfolio as a whole and for each separate asset class.

The Investment Manager will report on the performance of the portfolio net of fees. Performance will be measured against a “Benchmark” comprised of 35% S&P 500 Index, 25% MSCI EAFE Index, and 40% Bank of America Merrill Lynch US Corporate, Government and Mortgage Index. The Investment Manager will report quarterly on the performance of the portfolio, net of fees, compared to the Benchmark.

The Trustees may request the Investment Manager to offer additional benchmarks (e.g., interpolated) in order to better gauge performance and gain a more complete understanding of investment performance.

The Investment Manager will report holdings monthly and performance quarterly, as well as upon request. The reports should provide annualized performance information net of fees that includes the following time horizons: year to date, and one, three, five and ten (to the extent the manager has managed for those periods) year “look back” periods. Provided performance data is available from the prior investment manager, the Investment Manager shall provide annualized performance information for “look back” periods during which the prior investment manager managed the Trust investments for all or part of the “look back” period.

The Investment Manager is responsible for immediately reporting to the Trustees any material changes in investment strategy, portfolio structure, company ownership, financial position, and any unusual or extraordinary events of their firm. Examples of such events include, but are not limited to, portfolio manager or management team departure, significant changes in the firm’s overall client composition,

violation of investment guidelines, material litigation against the manager firm, material changes in firm ownership structure, or announcements thereof.

B. Fee/Cost Disclosure

The Investment Manager is responsible to include in quarterly reports the following information regarding fees and costs:

1. Total actual dollar amount Investment Manager's advisory fees (not including internal fund fees) for the prior rolling 12 months;
2. Total estimated annualized dollar amount of the internal fund fees;
3. The Investment Manager's advisory fees (not including internal fund fees) as a percentage of total asset value, as of the end of the quarter reported;
4. The fund expense ratio for each investment vehicle, as a percentage of assets invested in the particular investment vehicle, as of the end of the quarter reported; and
5. The total internal fund fees, reported as a percentage of total asset value, as of the end of the quarter reported.

No less than annually, the Investment Manager shall also disclose any other costs associated with the investment and management of the Trust portfolio including, but not limited to, custodial fees for holding trust assets, annual operating expenses, such as expense ratios, wrap fees, mortality fees, etc., and other costs to administer the portfolio, etc. This report must include disclosure of remuneration from all sources whether the remuneration be direct, indirect, an offset, stipulations (order flow), compensation paid among related parties, and the like.

Any compensation that the Investment Manager expects to receive in connection with termination of the Investment Management services contract, including a description of how any pre-paid compensation will be calculated and refunded on termination of the contract, shall be disclosed in the Investment Management services contract and any revisions thereto.

Fees must be competitive in the applicable marketplace compared to similar investments; it is the responsibility of the Investment Manager to clearly articulate its own fees.

XIII. Investment Monitoring

The Treasury Committee, as defined in the City's Investment Policy (Policy 01200.602), shall review the Investment reports and results on a quarterly basis. If the performance of the Investment Manager and the investment results are found to be satisfactory to the Trustees, no further action is required. The Trustees will evaluate the performance of Trust portfolio investments and Investment Managers from a long-term perspective and the time horizon noted in Section VII.

Nonetheless, where the Trustees or the Treasury Committee find the performance of a Investment Manager to be unsatisfactory, the Trustees or the Treasury Committee will promptly take action to attempt to remedy the deficiency.

XIV. Manager Termination

Generally, the services of an Investment Manager shall be terminated when the Trustees lose confidence in the Investment Manager. If there are significant changes in the Investment Manager's investment

style, the company ownership or management of the Investment Manager's firm/organization, or performance of the Investment Manager, the Trustees may consider terminating the Investment Manager.

The Trustees shall communicate a termination decision to the Investment Manager in writing.

XV. Proxies

The Trustees have determined, in consultation with the Investment Manager, that the cost and burden of researching and voting proxies appurtenant to the type of investments held in the Trust portfolio generally outweighs the financial benefit to the Trust from such voting. Thus, the Board of Trustees hereby directs that the Trust will not vote on proxies appurtenant to shares of stock, mutual funds, or other investments held by the Trust, unless special circumstances arise (as communicated by the Investment Manager to the Trustees and the Trustees specifically direct the Investment Manager to handle proxy voting.

This City of Corona Pension Stabilization Trust Investment Policy has been reviewed by the Trustees and is adopted by the City Council at a meeting held on July 3, 2024, and shall be effective immediately.

Glossary of Investment Terms

- BENCHMARK.** A comparison security or portfolio for evaluating the Investment Manager's performance.
- COMMINGLED FUND.** An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities issued by multiple issuers. Examples include mutual funds and exchange traded funds.
- COMMODITY.** A basic good used in commerce that is interchangeable with other commodities of the same type. 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.
- DIVERSIFICATION.** Dividing investment funds among a variety of investments and sectors to avoid excessive exposure to any one source of risk.
- EQUITY.** A stock or any other security representing an ownership interest.
- EXCHANGE TRADED FUND (ETF).** A marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold.
- INVESTMENT GRADE.** A credit rating that indicates a bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "High Yield bonds."
- INVESTMENT MANAGER.** The person or organization that makes investments in portfolios of securities on behalf of the Trust, in accordance with the investment objectives and parameters defined by this Investment Policy. The Investment Manager shall be responsible for all activities associated with the management of the Trust portfolio, from buying and selling securities on a day-to-day basis to portfolio monitoring, settlement of transactions, performance measurement, and regulatory and client reporting.
- LIQUIDITY.** The speed and ease with which an asset can be converted to cash.
- MARKET CYCLE.** Every market has cycles and they recur periodically, though not on a predictable schedule. The length of each full cycle, and each phase within it, varies from several months to several years. The top of a cycle is called a peak and the bottom a trough.
- MONEY MARKET.** The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.
- MUTUAL FUND.** An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

REAL ESTATE INVESTMENT TRUST (REIT). A security that invests in real estate directly, either through properties or mortgages.