

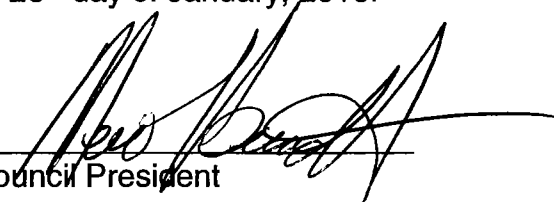
RESOLUTION NO. 2-16

A RESOLUTION APPROVING THE CEMETERY  
ENDOWMENT FUND INVESTMENT POLICY

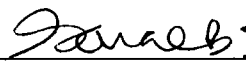
**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF  
THE CITY OF COLORADO SPRINGS:**


Section 1. The City Council hereby approves the attached Investment Policy  
for the Cemetery Endowment Fund.

Dated at Colorado Springs, CO, this 26<sup>th</sup> day of January, 2016.

  
Council President

ATTEST:

  
Sarah B. Johnson, City Clerk



**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. The Colorado Springs City Council has formed an Investment Advisory Committee to provide insight and advice to the Chief Financial Officer, City staff and the City Council on investment policy and objectives for the management and oversight of the Fund.

### **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, with insight and assistance from the investment advisor and the Investment Advisory Committee, 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.
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**

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, private or leveraged equity, certain real estate investments, and hedge funds 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, certain real estate investments, and hedge funds 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, certain real estate investments and hedge funds.

### **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 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”. The Chief Financial Officer, with input from the Investment Advisor and Investment Advisory Committee, has the authority to determine the target asset allocation.

| <u>Asset Classes</u>      | <u>Range</u> |
|---------------------------|--------------|
| <b>Growth Assets</b>      |              |
| Domestic Equity           | 10% - 60%    |
| International Equity      | 0% - 40%     |
| Other                     | 0% - 20%     |
| <b>Income Assets</b>      |              |
| Fixed Income              | 20% - 80%    |
| Other                     | 0% - 20%     |
| <b>Real Return Assets</b> | 0% - 20%     |
| <b>Cash Equivalents</b>   | 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%, a combination of expected spending, 2.5%-3% annually, and 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:

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

### 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.

#### 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 ASSETS (ALTERNATIVES)

Alternatives may consist of non-traditional asset classes such as hedge funds, private equity, real estate and commodities, when deemed appropriate. The total allocation to this category may not exceed 20% of the overall portfolio. Prior to adding an allocation to any of the following asset classes, with the exception of publicly-traded mutual fund vehicles, the Advisor shall receive approval from the Committee.

Hedge Funds: Primary objective shall be to enhance the risk-return profile of the overall portfolio. This can be accomplished by using a combination of hedge fund strategies that may enhance returns at a reasonable level of risk or reduce volatility while providing a reasonable level of return. These asset classes may differ from traditional public market asset classes due to the use of certain strategies including short-selling, leverage, and derivatives. Hedge funds may also invest across asset classes. The use of direct hedge funds and fund-of-hedge funds are allowed. For purposes of asset allocation targets and limitations, single strategy hedge funds will be categorized under the specific asset class of the fund. For example, a long/short U.S. equity fund will be categorized as "Other" in the Growth Assets category while a long/short credit fund will be categorized as "Other" in the Income Assets category. Multi-strategy hedge funds that cannot be easily categorized under one asset class will be included in "Other" under either the Growth Assets or Income Assets category depending on the risk-return profile of the strategy.

Private Equity: Private equity is less liquid than publicly traded equity securities and may provide returns that are greater than what is available in publicly traded markets. The private equity portfolio may include investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special situation funds. The private equity portfolio is recognized to be long-term in nature and highly illiquid. Due to their higher risk, private equity investments are expected to provide higher returns than publicly traded equity securities. For purposes of asset allocation targets and limitations, these funds will be categorized as "Other" under the Growth Assets category.

Real Estate: Consists of publicly traded Real Estate Investment Trust ("REIT") securities and/or non-publicly traded private real estate and shall be diversified across a broad array of property types and geographic locations. Investments of this type are designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. For private real estate, the illiquid, long-term nature should be considered. For purposes of asset allocation targets and limitations, publicly traded REITs will be categorized as "Other" under the Growth Assets category. Depending on the investment characteristics of a private real estate fund, the fund will be categorized as "Other" under either the Income Assets category, for example, a core real estate fund, or under the Growth Assets category, for example, an opportunistic real estate fund where capital gains are expected to make up a significant portion of the total return.

Inflation Hedge: Shall consist of pooled vehicles holding among other assets: Treasury Inflation Protected Securities ("TIPS"), commodities or commodity contracts, index-linked derivative contracts, certain real estate or real property funds and the equity of companies in businesses thought to hedge inflation. Inflation hedge assets will be reported in the Real Return Assets category.

#### 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 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 Objectives

The Advisor shall review annually and report to the Chief Financial Officer and City Council 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 provide quarterly reports to the Chief Financial Officer and meet on at least a semi-annual basis with the Chief Financial Officer and Investment Advisory Committee 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. 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 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.

#### **Adoption of Investment Policy Statement**

Any changes and exceptions to this Policy Statement will be made in writing and presented to the City Council of Colorado Springs for formal adoption and approval by resolution. Once adopted, changes and exceptions will be delivered to each Manager, as appropriate, by the Advisor.

## Addendum to Cemetery Endowment Fund Investment Policy Statement

### Asset Allocation Targets

The Chief Financial Officer, with input from the Investment Advisor and Investment Advisory Committee, 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 and the Investment Advisory Committee (IAC) 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> |
| <b>Growth Assets</b>      |                         |               |
| Domestic Equity           | 10% - 60%               | 33%           |
| International Equity      | 0% - 40%                | 17%           |
| Other                     | 0% - 20%                | 0%            |
| <b>Income Assets</b>      |                         |               |
| Fixed Income              | 20% - 80%               | 50%           |
| Other                     | 0% - 20%                | 0%            |
| <b>Real Return Assets</b> | 0% - 20%                | 0%            |
| <b>Cash Equivalents</b>   | 0% - 20%                | 0%            |

Approved:



Chief Financial Officer

1/29/16  
Date