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# STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

For The

*MIRAMAR FIREFIGHTERS' LOCAL 2820 VEBA TRUST FUND*  
*September 8, 2021*

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## I. INTRODUCTION AND BACKGROUND

The Miramar Firefighters' Local 2820 VEBA Trust Fund is a benefit plan established by an agreement and declaration of trust. The Fund's Board of Trustees is the plan "sponsor". The Plan is administered by the Firefighters' Insurance Trust Fund Board of Trustees. The Plan is a Health Trust Fund maintained to provide health care benefits to participants in accordance with the express provisions of the Plan.

The Board of Trustees has the responsibility to develop a policy for the investment of the assets of the Fund. The trustees are named fiduciaries. The investment of the assets of our Trust Fund must be consistent with the written investment policy adopted by the board of trustees. The policies are structured to maximize the financial return to the Trust 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 Board in this function, they are authorized to engage the services of investment and actuarial consultants to provide expert assistance. The Board periodically undertakes studies to evaluate the potential consequence of alternative investment strategies on the long term well being of the Plan. In the view of its consultants and the Board, the investment program defined in this Statement will produce a result over the long term consistent with the Plan'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 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 Plan assets and expected investment returns and risks associated with alternative asset mix strategies, the Board adopted the following asset class targets, based on market value:

### TRADITIONAL ASSET CLASSES

#### EQUITY

	<u>% Range</u>	<u>% Target</u>
Large Cap. Value Manager	30.00 – 10.00 %	20.00 %
Large Cap. Growth Manager	30.00 – 10.00 %	20.00 %
Small/Mid Cap. Value Manager	12.00 – 0.00 %	6.00 %
Small/Mid Cap. Growth Manager	12.00 – 0.00 %	6.00 %
International Value Manager	10.00 – 0.00 %	5.00 %
International Growth Manager	10.00 – 0.00 %	5.00 %
Total Equity	70.00 – 40.00 %	62.00 %

#### FIXED INCOME & CASH

Fixed Income Manager	35.00 – 10.00 %	25.00 %
Cash & Equivalents	10.00 – 0.00 %	3.00 %
Total Fixed Income & Cash	45.00 – 10.00 %	28.00 %
<b>TOTAL TRADITIONAL</b>		<b>90.00 %</b>

#### ALTERNATIVE ASSET CLASSES

##### PRIVATE REAL ESTATE FUND

	<u>% Range</u>	<u>% Target</u>
PRIVATE REAL ESTATE FUND	12.50 – 0.00 %	10.00 %
<b>TOTAL ALTERNATIVE ASSET CLASSES</b>	<b>12.50 – 0.00 %</b>	<b>10.00 %</b>

##### TOTAL TRADITIONAL & ALTERNATIVE

**100.00 %**

These ranges and targets 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 Board'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 Board are as follows:

**1. Establish a Prudent Investment Program**

Although the Trust 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 Trust 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 insurance trust 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 Board include the following:

- The Fund should earn a return greater than inflation, as measured by the Consumer Price Index, by 2.0% per year. It is also consistent with the Board's objective to enhance the purchasing power of the Funds.
- 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. 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 Board will review these projected cash flow requirements at least annually.

**B. Passive Investments**

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 managers 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 is regulated by the NASD. Any investment not in the category listed above is prohibited.

The equity portion of each portfolio manager shall not:

1. Make short sales.
2. Use margin or leverage.
3. Be invested in commodities.
4. Be invested in private real estate.
5. Be invested in "investment art objects."
6. Invest in Options, including the purchase, sale or writing of options unless options are "covered" by the corresponding security.
7. 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.

The compliance and monitoring of this Section (III.C.) is the responsibility of the consultant and the trustees. The consultant's responsibility is to report any non-compliance to the trustees each quarter.

a.) Large Capitalization Value & Growth Stocks

Large capitalization stocks are expected to have the greatest equity weighting in the Trust Fund. They are expected to provide more consistent returns over time than our other equity styles. The objective for active investment managers 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 performance parameters for active managers include the following:

- Performance comparable to the appropriate Russell indexes commensurate with the recognized level of risk.
- 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 for active investment managers 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 stock managers generally purchase companies with a market capitalization of greater than \$500 million.

Mid/Small capitalization equity performance parameters for active managers include the following:

- Performance comparable to the appropriate Russell indexes commensurate with the recognized level of risk.
- 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.) International Stocks

International Stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective for active investment managers is to maximize investment return over a market cycle by investing in international securities through American Depository

Receipts (ADRs). These equities should generate investment returns exceeding a passively managed international index.

International equity performance parameters for active managers include the following:

- Performance comparable to the MSCI EAFE (Net) or MSCI All Country World ex. USA (Net) indexes commensurate with the recognized level of risk.
- 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. 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) or Israel Bonds (c) domestic banks and other US financial institutions, or (d) state and municipal bonds. All securities must hold a rating in one of the three highest classifications 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 comparable to the Bloomberg Barclays Intermediate Government/Credit Bond index commensurate with the recognized level of risk.
- Achieve the above objectives within a time horizon of a minimum of three to five years or a full market cycle.

**E. 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. 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. 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:

- Performance comparable to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property or Open-End Diversified Core indexes commensurate with the recognized level of risk .
- Achieve the above objectives within a time horizon of five to ten years or a full real estate market cycle.

**F. Long/Short Credit Funds**

Long/short credit funds combine allocations to a variety of fixed income instruments including investment grade and high yield corporate bonds, bank loan and structured credit, with tactical long/short credit. These funds may also make smaller allocations to sovereign bonds, asset-backed securities, and equities. They are expected to improve total portfolio diversification and provide opportunities to achieve higher incremental returns in the long-term. The objective is to provide absolute returns over a market cycle. Investment in long/short credit will be through a mutual fund vehicle.

Long/short credit mutual fund performance parameters include the following:

- Exceed appropriate Hedge Fund Research, Inc. index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must 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.
- Compare to the Bloomberg Barclays US Aggregate Bond Index for return and risk over a time horizon of three to five years or a full market cycle.

**G. Other Requirements**

1. INTERNAL CONTROLS. The board shall establish a system of internal controls which shall be in writing and made a part of the board's operational procedures. The policy shall provide for review of such controls by independent certified public accountants as part of any financial audit periodically required of the board's unit of local government. The internal controls should be designed to prevent losses of funds which might arise from fraud, error, misrepresentation by third parties, or imprudent actions by the board or employees of the unit of local government.

2. VALUATION OF ILLIQUID INVESTMENTS. Illiquid investments for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism shall be valued when those investments are utilized. Any asset without a fair market value shall be excluded from the determination of annual funding cost.

**H. Review of Investment Managers**

The Board will review investment results quarterly.

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.

**I. Performance Expectations**

The most important performance expectation is the achievement of investment results consistent with the Plan's investment policy statement. A 2.0% real return is a reasonable expectation in light of this policy. The Board 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 Board will use comparative performance statistics to evaluate investment results. Performance of the Fund will be compared to other funds utilizing a similar investment policy.



**J. Fiduciary and Other Responsibilities**

The Investment Manager shall carry out its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Investment Manager shall discharge its duties hereunder solely in the interest of the Health Trust Fund's participants and beneficiaries for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Health Trust Fund. The Investment Manager, by execution of this Agreement, acknowledges it is a fiduciary within the meaning of the Investment Advisors Act of 1940, as amended, with respect to the Health Trust Fund.

**K. Self-Directed Member Account**

Certain eligible Fund members may elect to separate their account balances into a money market fund instead of participating in the return of the Health Trust managed funds.

**L. Policy Review**

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

Adopted

9/8/2021  
Date

Signed

Chairman

## **Investment Consultant's Acknowledgment**

The undersigned, as your investment consultant, acknowledge we have received the Statement of Investment Policy and Objectives ("Policy") for the Miramar Firefighters' Local 2820 VEBA Trust Fund, dated September 8, 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

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Date

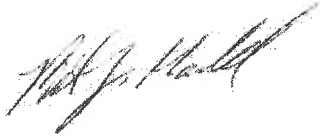
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By: \_\_\_\_\_

Authorized Graystone Consulting/Morgan Stanley Representative



\_\_\_\_\_  
Date

