# CITY OF LINCOLN NEBRASKA
# POLICE AND FIRE PENSION PLAN
# INVESTMENT POLICY STATEMENT

August 11, 2022

This Investment Policy Statement was approved by action of the Investment Board of the City of Lincoln Nebraska Police and Fire Pension Plan.

## Overview

The City of Lincoln Nebraska Police and Fire Pension Plan (the “Plan”) is a defined benefit pension plan providing retirement, disability and survivor benefits to Police Officers, Fire Fighters and their beneficiaries. The Plan operates under the rules of Internal Revenue Code section 401(a). The City and participants make contributions to, and Plan benefits are paid by, the Police and Fire Pension Fund (the “Fund”). The Investment Board (the “Board”) has been established by the City Council under Lincoln Municipal Code (“LMC”) chapter 4.62 to direct and oversee the Fund’s investments for the sole benefit of plan participants and beneficiaries.

This Investment Policy Statement (“IPS”) is established to provide guidance in selecting and monitoring the investments of the Fund. The purpose of this IPS is to describe the financial goals of the Fund and to outline the investment strategy that can be used to accomplish those goals. The IPS assists in the investment decision-making process by communicating an understanding of the goals and strategies to all parties involved and by providing a methodology for consistently evaluating performance. The intent of this IPS is to provide guidelines that are specific enough to be meaningful but also flexible enough to incorporate practical considerations.

This IPS will comply with applicable requirements of the LMC and Nebraska law.

## I. Investment Objectives

The primary objective of the Plan is to provide eligible employees with retirement benefits. Assets will be invested in a diversified portfolio to achieve attractive real rates of return. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the Plan’s tolerance for risk as determined by the Board in its role as fiduciary as set forth in the LMC and Nebraska Law.

## II. Responsibilities

The Board shall provide oversight and direction to the Plan Administrator with regard to the investment of the Fund in accordance with LMC section 4.62.010 et seq. The Board is responsible for establishing and maintaining this IPS as well as managing, monitoring and evaluating the investments of the Fund on an ongoing basis.

The Plan Administrator is responsible for the daily management of the Fund, routine investment transactions, and retaining the Investment Consultant.

The Investment Consultant is retained by the Plan Administrator, after consultation with the Board, in accordance with LMC section 4.62.025(h). The Investment Consultant will assist the Board in selecting, implementing and monitoring the investments of the Fund. The Investment Consultant will recommend Asset Allocation Targets and Ranges, Performance Benchmarks, Investment Manager Benchmarks and other similar criteria to assist the Board in evaluating the investment portfolio.

The Investment Managers are selected by the Board and retained by the Fund, upon advice and consultation of the Investment Consultant, to manage the assets of the Fund, in accordance with

LMC section 4.62.025(d). For purposes of this IPS, the Investment Managers include all investment professionals who are retained by the Fund to manage the assets of the Plan. Each Investment Manager will be responsible for managing its portion of the investments with full discretionary investment authority, subject to the Policies and Guidelines set forth in this IPS and other documents (Investment Managers and their corresponding strategy benchmarks are listed in Appendix B).

All retained Investment Managers are expected to provide monthly written reports on portfolio activity, investment performance and investment strategies to the Investment Consultant. Further, the Investment Managers will be responsible for notifying the Plan Administrator and the Investment Consultant of any significant organizational changes, such as key personnel, ownership, investment process or style.

The Custodial Bank, or its designee, holds investment assets of the Fund.

## III. Asset Allocation

The Asset Allocation Targets and Ranges shown in Appendix A are designed to reflect, and be consistent with, the long-term Investment Objectives expressed in this IPS. Various asset classes and Investment Manager styles are used to create a broadly diversified portfolio. The Board has developed and periodically updates its Asset Allocation Targets and Ranges based on several factors including: the long-term investment goals of the Plan; the Board's tolerance for short-term losses; the Plan's liquidity needs; and any legal or regulatory issues.
Asset Allocation Targets and Ranges will change through time to reflect current investment objectives and market conditions.

<u>Liquidity</u>
Although there is no specific allocation to cash, the Board recognizes that it is necessary to hold a portion of the assets as immediately available funds to pay scheduled and unscheduled benefits and administrative expenses. These cash reserves will be held in short term investment funds in the Plan's operating account(s) at the Custodial Bank. The appropriate level of cash reserves will depend upon anticipated liquidity needs as determined by the Plan Administrator on an ongoing basis.

<u>Rebalancing</u>
The portfolio should be rebalanced to maintain the desired risk/return posture. When a cash contribution is made or withdrawal is needed, the portfolio should be rebalanced toward the Asset Allocation Targets and Ranges set forth in Appendix A, as possible, given the dollar amount of the contribution or withdrawal. That is, invest contributions in underweight asset classes and withdraw from overweight asset classes. In addition, the portfolio will be rebalanced if the actual asset allocation mix falls outside of the allowable ranges noted in Appendix A. The Board recognizes that it may be impractical or costly to reallocate illiquid asset classes. If an illiquid asset class breaches an upper or lower allowable limit, the asset class will be rebalanced to within its asset allocation range as soon as is practically possible, subject to reasonable transaction costs.

## IV. Investment Guidelines

<u>Standards of Prudence</u>

The standard of prudence to be used by Board members and Plan Administrator, shall be the "Exclusive Benefit Rule" as stated in LMC section 4.62.015(f), and shall be applied in the context of managing the Fund. LMC section 4.62.015(f) provides as follows:

> All assets of the Plan shall be held and invested for the sole purpose of meeting the legitimate obligations of the Plan and shall be used for no other purpose. No part of the assets shall be used for or diverted to purposes other than for the exclusive benefit of members and beneficiaries prior to satisfaction of all Plan obligations.

The Board should evaluate the investment decisions within the context of the entire Fund (rather than on an individual investment basis) and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund's purpose.

<u>Investment Discretion</u>
Investments shall be fully consistent with each Investment Manager's stated strategy and approach. Allowable investments are restricted by the Standards of Prudence section as well as applicable law, and Investment Managers will be evaluated based on their compliance with the Standards of Prudence.

Separate accounts, mutual funds and other investment vehicles may be used based upon the most favorable approach for the Fund's circumstances. If pooled funds are used, the pooled fund's investment goals, policies, guidelines and restrictions are set forth in a separate document governing the investments of the pooled fund rather than in this IPS.

<u>Ethics and Conflicts of Interest</u>
Board members shall refrain from activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions in accordance with the Conflict of Interest Policy adopted by the Board. Board members shall disclose to the Board any conflicts of interest or financial interests in accordance with the Conflict of Interest Policy.

The Board shall monitor conflicts of interest by any entity to which the Board delegates its authority.

## V. Investment Manager Selection Guidelines

1. When, in consultation with the Investment Consultant, the Board determines that an Investment Manager search is warranted, the Board will direct the Investment Consultant to institute, coordinate and summarize the findings of the search. Identification of candidates will come from the Investment Manager search database maintained by the Investment Consultant and such other sources as determined by the Board. The Board will strive to hire Investment Managers that offer the greatest incremental benefit to the Plan, net of fees and expenses.
2. The Investment Consultant, working with the Board, will establish certain consistently applied minimum criteria for an Investment Manager to be considered to participate in the search. All qualified candidates will receive fair consideration.
3. Analysis of qualified candidates will be based on:
    a. Quantitative characteristics, such as Global Investment Performance Standards (GIPS), compliant composite return data, risk-adjusted rates of return, and relevant

   portfolio characteristics,
   b. Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls, and
   c. Organizational factors such as fees, type and size of firm, ownership structure, client servicing capabilities, and ability to obtain and retain clients.
4. The Board may interview finalist candidates or select Investment Managers without formal interviews.

## VI. Review Standards

Performance Benchmarks

The Fund's total return will be expected to provide equal or superior results relative to the following benchmarks:

A. A long-term objective equivalent to the prevailing actuarial rate of return shown in Appendix C, measured over a 5-year period.
B. A relative return benchmark equivalent to the Investment Metrics Public Defined Benefit Pension Plans ($250 - $500 million) Peer Group Median.

The Board intends to select Active Investment Managers that will outperform, on a net-of-fee basis, the designated passive index, and rank above median within a peer universe of active Investment Managers. Passive products are expected to produce returns that exhibit minimal tracking error to their target index returns.

Time Horizon

Active Investment Managers are expected to outperform their designated benchmark over rolling three- to five-year periods. A three- to five-year period is used to allow Investment Managers the opportunity to meet their performance benchmarks, given shorter-term fluctuations due to style considerations.

Compliance with Policies and Guidelines

Each retained Investment Manager's portfolio will be monitored for compliance with the Policies and Guidelines found in this and other documents. If a portfolio is determined to be out of compliance, the retained Investment Manager will be contacted to develop a mutually agreed upon solution to bring the portfolio back into compliance with this IPS. If retained Investment Manager fails to move the portfolio into compliance, termination of the retained Investment Manager will be considered.

Other Standards

Any significant changes in investment philosophy and process, organizational structure, investment staff, or other non-performance reasons may be cause for termination, regardless of the status of their investment performance relative to their designated benchmarks.

The Board retains the right to terminate an Investment Manager for any reason subject to the terms of the agreement between the two parties.

Appendix A – Asset Allocation Targets and Ranges

| Asset Class | Target Allocation | Minimum Allocation | Maximum Allocation |
|---|---|---|---|
| Public Equity | 50 | 40 | 60 |
| US Equity | 21 | 16 | 26 |
| Non-US Developed Equity | 5 | 3 | 7 |
| Emerging Market Equity | 6 | 4 | 8 |
| Global Equity | 18 | 14 | 22 |
| Private Equity | 10 | 6 | 14 |
| Fixed Rate Debt | 15 | 12 | 18 |
| Floating Rate Debt | 10 | 8 | 12 |
| Real Estate | 15 | 12 | 18 |
| Total | 100 | n/a | n/a |

* Based on the current liquidity requirements, the Plan Administrator has determined that the current cash reserve range should be $2 to 4 million.

Appendix B – Listing of Investment Managers and Benchmarks

| Composite / Investment Manager | Benchmark |
| --- | --- |
| **U.S. Equity** | Russell 3000 Index |
| Vanguard Total Stock Market Index | Vanguard Total Stock Market Spliced Index |
| | |
| **Non-US Equity** | MSCI All Country World Index ex-USA (Net) |
| Vanguard Total International Stock Index (VTSNX) | Vanguard Total International Stock Spliced Index |
| Vanguard Emerging Market Stock Index (VEMIX) | Vanguard Emerging Market Stock Spliced Index |
| | |
| **Global Equity** | MSCI All Country World Index (Net) |
| Dodge & Cox Stock (DODWX) | MSCI All Country World Index (Net) |
| American Funds (RNPGX) | MSCI All Country World Index (Net) |
| | |
| **Fixed Rate Debt** | Bloomberg Barclays US Aggregate Bond Index |
| JPMorgan Core Bond | Bloomberg Barclays US Aggregate Bond Index |
| | |
| **Floating Rate Debt** | Credit Suisse Leveraged Loan Index |
| Bain Capital Senior Loan LP | Credit Suisse Leveraged Loan Index |
| Golub Capital Partners Intl 11 LP | Credit Suisse Leveraged Loan Index +1% |
| OHA Tactical Opportunities Offshore LP | Credit Suisse Leveraged Loan Index +2% |
| Varde Dislocation Offshore LP | Credit Suisse Leveraged Loan Index +2% |
| Principal Real Estate Debt II LP | Credit Suisse Leveraged Loan Index +1% |
| | |
| **Private Equity** | Russell 3000 Index +3% |
| Aberdeen US Private Equity VI LP | Russell 3000 Index +3% |
| Greenspring Partners IX-B LP | Russell 3000 Index +3% |
| Warburg Pincus Global Growth LP | Russell 3000 Index +3% |
| Weathergage Venture Capital IV LP | Russell 3000 Index +3% |
| TPF II LP | Russell 3000 Index +3% |
| | |
| **Real Estate** | Real Estate Custom Index* |
| REEEF America REIT II | NCREIF ODCE Index (AWA) (Net) |
| Prudential PRISA III LP | NCREIF ODCE Index (AWA) (Net) |

## Appendix C – Actuarial Assumed Rate of Return

The Fund's long-term actuarial assumed rate of return is scheduled to reduce by 0.05% starting in fiscal year 2019 – 2020 until the assumed rate is 7.25%. The following table exhibits the future changes to the actuarial assumed rate of return.

| | |
|---|---|
| FY 2019 – 2020 | 7.45% |
| FY 2020 – 2021 | 7.40% |
| FY 2021 – 2022 | 7.35% |
| FY 2022 – 2023 | 7.30% |
| FY 2023 – 2024 | 7.25% |