



# Investment Guidelines Document

City of San Leandro

Post-Retirement Healthcare Plan

July 2021

# Investment Guidelines Document

## Scope and Purpose

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The purpose of this Investment Guidelines Document is to:

- Facilitate the process of ongoing communication between the Plan Sponsor and its plan fiduciaries;
- Confirm the Plan's investment goals and objectives and management policies applicable to the investment portfolio identified below and obtained from the Plan Sponsor;
- Provide a framework to construct a well-diversified asset mix that can potentially be expected to meet the account's short- and long-term needs that is consistent with the account's investment objectives, liquidity considerations and risk tolerance;
- Identify any unique considerations that may restrict or limit the investment discretion of its designated investment managers;
- Help maintain a long-term perspective when market volatility is caused by short-term market movements.

### Key Plan Sponsor Account Information as of July 2021

<b>Plan Sponsor:</b>	City of San Leandro
<b>Governance:</b>	The City Council of the City of San Leandro
<b>Plan Name ("Plan"):</b>	The City of San Leandro Post-Employment Health Care Plan
<b>Trustee:</b>	US Bank Contact: Sue Hughes, 949-224-7209 Susan.Hughes@usbank.com
<b>Type of Account:</b>	GASB 45/Other Post-Employment Benefits Trust
<b>ERISA Status:</b>	Not subject to ERISA
<b>Investment Manager:</b>	US Bank, as discretionary trustee, has delegated investment management responsibilities to HighMark Capital Management, Inc. ("Investment Manager"), an SEC-registered investment adviser Contact: Randall Yurchak, CFA, 415-705-7579 Randall.yurchak@highmarkcapital.com

**Investment Authority:** Except as otherwise noted, the Trustee, US Bank, has delegated investment authority to HighMark Capital Management, an SEC-registered investment adviser. Investment Manager has full investment discretion over the managed assets in the account. Investment Manager is authorized to purchase, sell, exchange, invest, reinvest and manage the designated assets held in the account, all in accordance with account's investment objectives, without prior approval or subsequent approval of any other party(ies).

## **Investment Objectives and Constraints**

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The goal of the Plan's investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

- The Plan should earn, on a long-term average basis, a rate of return equal to or in excess of the target rate of return of 5.25%.
- The Plan should seek to earn a return in excess of its policy benchmark over the long-term.
- The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic, long-term perspective of the capital markets.

**Investment Time Horizon:** Long-term

**Anticipated Cash Flows:** Distributions are expected to be low in the early years of the Plan

**Target Rate of Return:** 5.25% annual target

**Investment Objective:** The primary objective is to maximize total Plan return, subject to the risk and quality constraints set forth herein. The investment objective the Plan Sponsor has selected is the Moderately Conservative Objective, which seeks to provide current income and moderate capital appreciation. The major portion of the assets are committed to income-producing securities. Market fluctuations should be expected.

**Risk Tolerance:** *Moderately Conservative*  
The account's risk tolerance has been rated moderately conservative, which demonstrates that the account can accept modest price fluctuations to pursue its investment objectives.

**Strategic Asset Allocation:** The asset allocation ranges for this objective are listed below:

<i>Strategic Asset Allocation Ranges</i>		
Cash	Fixed Income	Equity
0%-20%	50%-80%	20%-40%
Policy: 5%	Policy: 65%	Policy: 30%

Market conditions may cause the account's asset allocation to vary from the stated range from time to time. The Investment Manager will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with your objectives.

**Security Guidelines:**

Equities

With the exception of limitations and constraints described above, Investment Manager may allocate assets of the equity portion of the account among various market capitalizations (large, mid, small) and investment styles (value, growth). Further, Investment Manager may allocate assets among domestic, international developed and emerging market equity securities.

Total Equities	20%-40%
<i>Equity Style</i>	<i>Range</i>
Domestic Large Cap Equity	10%-30%
Domestic Mid Cap Equity	0%-10%
Domestic Small Cap Equity	0%-12%
International Equity (incl. Emerging Markets)	0%-12%
Real Estate Investment Trust (REIT)	0%-8%

Fixed Income

In the fixed income portion of the account, Investment Manager may allocate assets among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio.

Total Fixed Income	50%-80%
<i>Fixed Income Style</i>	<i>Range</i>
Long-term bonds (maturities >7 years)	0%-30%
Intermediate-term bonds (maturities 3-7 years)	30%-80%
Short-Term bonds (maturities <3 years)	0%-25%
High Yield bonds	0%-6%

**Performance Benchmarks:**

The performance of the total Plan shall be measured over a three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance shall be compared to the return of the total portfolio blended benchmark shown below.

**Total Portfolio Blended Benchmark**

15.5%	S&P 500 Index
3.00%	Russell Mid Cap Index
4.50%	Russell 2000 Index
2.00%	MSCI Emerging Market Index
4.00%	MSCI EAFE Index
1.00%	Wilshire REIT Index
49.25%	Bloomberg Barclays US Aggregate Index
14.00%	ML 1-3 Year US Corp/Gov't Index
1.75%	US High Yield Master II Index
5.00%	Citi 1Mth T-Bill Index

**Asset Class/Style Benchmarks**

Over a market cycle, the long-term objective for each investment strategy is to add value to a market benchmark. The following are the benchmarks used to monitor each investment strategy:

Large Cap Equity	S&P 500 Index
Growth	S&P 500 Growth Index
Value	S&P 500 Value Index
Mid Cap Equity	Russell MidCap Index
Growth	Russell MidCap Growth Index
Value	Russell MidCap Value Index
Small Cap Equity	Russell 2000 Index
Growth	Russell 2000 Growth Index
Value	Russell 2000 Value Index
REITs	Wilshire REIT Index
International Equity	MSCI EAFE Index
Investment Grade Bonds	Bloomberg Barclays US Aggregate Index
High Yield	US High Yield Master II Index

**Security Selection**

Investment Manager may utilize a full range of investment vehicles when constructing the investment portfolio, including but not limited to individual securities, mutual funds, and exchange-traded funds. In addition, to the extent permissible, Investment Manager is authorized to invest in shares of mutual funds in which the Investment Manager serves as advisor or sub-adviser.

***Investment Limitations:***

The following investment transactions are prohibited:

- Direct investments in precious metals (precious metals mutual funds and exchange-traded funds are permissible).
- Venture Capital
- Short sales\*
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions\*
- Commodities Transactions Puts, calls, straddles, or other option strategies\*
- Purchases of real estate, with the exception of REITs
- Derivatives, with exception of ETFs\*

*\*Permissible in diversified mutual funds and exchange-traded funds*

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**Duties and Responsibilities*****Responsibilities of Plan Sponsor***

The Finance Committee of the City of San Leandro is responsible for:

- Confirming the accuracy of this Investment Guidelines Document, in writing.
- Advising Trustee and Investment Manager of any change in the plan/account's financial situation, funding status, or cash flows, which could possibly necessitate a change to the account's overall risk tolerance, time horizon or liquidity requirements; and thus would dictate a change to the overall investment objective and goals for the account.
- Monitoring and supervising all service vendors and investment options, including investment managers.
- Avoiding prohibited transactions and conflicts of interest.

***Responsibilities of Trustee***

The plan Trustee is responsible for:

- Valuing the holdings.
- Collecting all income and dividends owed to the Plan.
- Settling all transactions (buy-sell orders).

***Responsibilities of Investment Manager***

The Investment Manager is responsible for:

- Assisting the Finance Committee with the development and maintenance of this Investment Policy Guideline document.
- Meeting with Finance Committee to review portfolio structure, holdings, and performance.
- Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- Researching and monitoring investment advisers and investment vehicles.
- Purchasing, selling, and reinvesting in securities held in the account.
- Monitoring the performance of all selected assets.
- Voting proxies, if applicable.
- Recommending changes to any of the above.

- Periodically reviewing the suitability of the investments, being available to meet with the committee at least once each year, and being available at such other times within reason at your request.
- Preparing and presenting appropriate reports.
- Informing the committee if changes occur in personnel that are responsible for portfolio management or research.

## **Acknowledgement and Acceptance**

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I/We being the Plan Sponsor with responsibility for the account(s) held on behalf of the Plan Sponsor specified below, designate Investment Manager as having the investment discretion and management responsibility indicated in relation to all assets of the Plan or specified Account. If such designation is set forth in the Plan/trust, I/We hereby confirm such designation as Investment Manager.

I have read the Investment Guidelines Document, and confirm the accuracy of it, including the terms and conditions under which the assets in this account are to be held, managed, and disposed of by Investment Manager. This Investment Guidelines Document supersedes all previous versions of an Investment Guidelines Document or investment objective instructions that may have been executed for this account.



July 27, 2021

Date: \_\_\_\_\_

Plan Sponsor: City of San Leandro

Date: \_\_\_\_\_

Investment Manager: Randall Yurchak, CFA, Senior Portfolio Manager, (415) 705-7579