Investment Policy Statement
for
City Of Owosso
Employees' Retirement System

Adopted: 12/20/2007
As amended

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I. **Introduction**

Purpose of this Policy Statement

This policy statement outlines the goals and investment objectives for the City of Owosso Pension Plan (the "Plan"). Since this document is intended to provide investment guidelines for managing the Plan's investments, this document outlines certain specific investment policies that will govern how the Plan's investment goals are expected to be achieved. This statement:

- Describes an appropriate risk posture for the investment of the Plan's assets;
- Specifies the target asset allocation policy;
- Establishes investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets;
- Specifies the criteria for evaluating the performance of the investment managers and of the Plan as a whole;
- Defines the responsibilities of the Board of Trustees and other parties responsible for the management of the Plan.

The Board of Trustees believes that the investment policies described in this statement should be dynamic. These policies "should reflect the Board of Trustees duties and investment philosophy regarding the investment of these assets. These policies will be reviewed and revised periodically to ensure they adequately reflect changes related to the City, the Plan as well as any fundamental changes in the capital markets.

Investment Objective

The funding obligations of the Plan are long term in nature; consequently the investments of the Plan's assets shall have a long term focus.

The Board of Trustees has adopted an investment objective of **Growth and Income** for the Plan. This investment objective:

- Is expected to achieve a positive rate of return for the Plan over the long- term that significantly contributes to meeting the Plan's current and future obligations, including actuarial interest and benefit payment obligations and to help ensure the solvency of the Plan over time while attempting to minimize the on-going funding cost to the City;
- Is expected to earn long-term returns from capital appreciation and a growing stream of current income;
- Recognizes that the assets are exposed to risk and the market value of the Plan may fluctuate from year-to-year. This volatile performance is acceptable, as long as the Plan is invested primarily for capital appreciation over the long-term;
- Is expected to earn long-term returns sufficient to maintain or grow the purchasing power of assets over the long-term;
- Implies a long-term time horizon available for investment in order to benefit from total returns that would normally accrue to a patient investment strategy;

- Diversifies the Plan's assets in order to reduce the risk of wide swings in market value from year-to-year, or of incurring large losses that may result from concentrated position.

It is expected that these objectives can be obtained through a well-diversified portfolio structure in a manner consistent with this investment policy.

This investment policy is intended to be a summary of an investment philosophy that provides guidance for the Trustees and other parties interested in the management of the Plan. The guidance and limitations set forth in this statement are intended to provide the Board of Trustees and the City with a clear understanding of the investment policies and objectives of the Plan. It is the intent of this investment policy statement to provide a meaningful framework for the investment objectives of the Plan and that these policies will not be overly restrictive given changing economic, business, and capital market conditions. It is intended that the objectives be sufficiently specific to be meaningful, but flexible enough to be practical. It is understood that there can be no guarantees about the attainment of the goals or investment objectives outlined here.

II. Information About the City of Owosso Employees' Pension Plan

The City of Owosso
Employees' Pension Plan
301 West Main Street
Owosso, Michigan 48867

Primary Contact .... City Treasurer

Primary Contact .... Ronald J. Tobey
City Treasurer

Plan Fiscal Year End .... June 30th

Federal Tax ID # 36-6004723

Purpose and Scope of the Plan

The City of Owosso, Michigan sponsors this defined benefit pension plan in order to provide participants with a source of retirement income along with that received from the participants' personal savings and Social Security. Assets of the Plan are also utilized to pay pension benefits for retired participants, disability benefits and to pay death benefits. The Plan was first established in 1945.

Cash Flow and Liquidity Needs

The Plan is funded by contributions from the City of Owosso and participant contributions. Fund benefits can be paid in various ways pursuant to ordinance Owosso City Code 2-420.

Regulatory Environment

The Plan operates in accordance with Michigan Public Act 314 of 1965, titled Public Employee Retirement System Investment Act; and Owosso City Code 2-401 et seq.

In accordance with Internal Revenue Service Regulations, the income and earnings of the Plan are exempt from State and Federal taxes.

III. Responsibilities of the Plan Representatives

Board of Trustees

The Board of Trustees is comprised of 7 members that function in an oversight capacity for establishing an investment policy for this Plan and for approval of policies and guidelines.

It is expected that the objectives and policies described here will be used as the criteria for selecting and evaluating the appropriate investment managers for the management of the Plan's assets.

Specifically, the responsibilities of the Board of Trustees shall include:

- Overseeing a long-term strategic investment plan for the Plan. This includes evaluating the City's risk tolerance and determining a long term asset allocation policy consistent with the long-term investment objectives, financial needs and circumstances of the Plan and of the City;
- Establish, and revise as appropriate, the Investment Policies and Guidelines;
- Establish, and revise as appropriate, the target asset allocation;
- Periodically rebalance the assets of the Plan taking into consideration the target asset allocation;
- Determining an appropriate investment manager structure and the selection or termination of investment managers;
- Utilize qualified, external, multiple, discretionary, and cost-effective investment management by asset class and style;
- Establish appropriate and reasonable performance benchmarks for Investment Managers;
- Periodically (quarterly) evaluate the performance of each Investment Manager relative to their respective benchmark; and
- Periodically (quarterly) evaluate the performance of the Plan as a whole.
- Overseeing cash flows of the Plan;
- The selection or termination of administrators, consultants, and custodian for the Plan;
- Such other duties as may be described in this policy or required by applicable laws and regulations.

Fiduciary Responsibilities

The Board of Trustees acknowledges its fiduciary responsibilities to the Plan participants. Accordingly, the Board of Trustees shall manage the assets of the Plan consistent with all fiduciary rules and regulations, including Michigan Public Act 314 of 1965, to the best of their abilities.

Investment Consultant

The Investment Consultant retained by the Plan shall have the following responsibilities:

- To assist the Board of Trustees in strategic investment planning for the Plan. This includes providing assistance in developing an investment policy, asset allocation strategy, and investment manager structure;
- To provide to the Board of Trustees quarterly performance measurement reports for each of the investment managers and on the Plan as a whole, and to assist the Board of Trustees in interpreting the results;
- To act as a liaison between investment managers and the Plan, and thereby facilitate the communication of important information in the management of the Plan;
- Such other duties as may be mutually agreed to.

IV. Responsibilities of the Investment Managers

It is the intention of the Board of Trustees to utilize a combined approach of separately managed accounts with various investment management firms and investments in commingled or mutual funds. With respect to any mutual or other commingled funds that have been retained in the Plan the prospectus or Declaration of Trust documents of the fund(s) will govern the investment policies of the fund investments. The following guidelines apply to separately managed accounts, except where specifically noted:

Fiduciary Responsibilities

- Each Investment Manager shall obtain and maintain bonds and other surety agreements sufficient in the amount to comply with all applicable laws and to protect the interests of the City of Owosso;
- Each investment manager is expected to manage their portfolio in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement in accordance with Michigan Public Act 314 of 1965, and in accordance with applicable laws.

  This would include discharging their responsibilities with respect to the Plan consistent with "Prudent Investor standards, and all other fiduciary responsibility provisions and regulations;
- Each Investment Manager shall at all times be registered as an investment adviser under the Investment Advisers Act of 1940 (where applicable), and shall acknowledge in writing that they are a fiduciary of the Fund with respect to the assets they manage;
- Each Investment Manager shall supply the Contract Administrator a copy of their SEC form ADV Part 2 on an annual basis. If the Investment Manager is exempt from filing an annual

ADV, the Investment Manager shall provide information similar to the information contained in Form ADV Part 2 to the Contract Administrator. It is the responsibility of the Contract Administrator to distribute these filings as directed by the Board of Trustees;

- Each Investment Manager shall hold sufficient fidelity bonds, fiduciary liability or other insurance that would protect the interests ofthe Fund in the event of a breach of fiduciary duty and provide proof of such insurance and amounts of coverage to the Board of Trustees on an annual basis;
- The Fund assets will be managed by experienced investment management firms.

Security Selection/Asset Allocation

- Except as noted below, each investment manager shall have the discretion to determine their portfolio's individual security selections;
- The Fund is expected to operate within an overall asset allocation strategy defining the Fund's mix of asset classes. This strategy, described below, sets a long-term percentage target for the amount of the Fund's market value that is to be invested in any one asset class. The allocation strategy also defmes the allowable investment shifts between the asset classes, above and below the target allocations;
- The performance of each investment manager is measured versus a fully invested market index representative of the investment manager's style;
- The asset allocation strategy for each investment manager's portfolio can deviate from the overall Plan's asset allocation, however, the Board of Trustees is responsible for reviewing aggregate asset allocation, and may re-balance to the target allocation on a periodic basis.

Proxy Voting

Each investment manager is responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. Each investment manager shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the Board of Trustees upon request.

V. Risk Tolerance

Investment theory and historical capital market return data suggests that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk *(i.e.* volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Plan is the determination of an appropriate risk tolerance. The Board of Trustees examined two important factors that affect their risk tolerance:

Financial Ability to accept risk within the investment program; and

Willingness to accept return volatility.

Positive factors that contribute to a higher risk tolerance are:

1. The long-term time horizon available for investment; thus providing the opportunity to benefit from opportunities for growth that may accrue to a patient investment strategy;

2. The Board of Trustees willingness to accept short-term volatility in the market value of the Plan and in the funding ratio for the sake of earning higher long-term returns.

Offsetting these factors is:

1. As a defined benefit pension plan, the risk of investment losses is borne by the City and significant investment losses may require substantial contributions to the Plan to maintain required funding levels and such contributions may coincide with potentially poor financial conditions for the City;

2. Cyclical economic activity can significantly influence the finances of the City and its financial ability to fund large unexpected contributions.

The members of the Board of Trustees have analyzed the behavior of the Plan's assets within different economic environments. As a result of this analysis, the Board of Trustees is comfortable with a risk level of the Plan as measured by volatility (standard deviation) that is similar to the volatility level of the policy index when measured over three- to five-year rolling time periods and a full market cycle.

VI. Asset Allocation Strategy

In line with the Plan's return objectives and risk parameters, the mix of assets should be generally maintained as follows (percentages are of the market value of the Plan):

Asset Class/ Investment Style	**Minimum**	**Target Average**	**Maximum**
Large / Mid Cap Growth Equity Manager	19.75%	24.75%[1]	29.75%
Large / Mid Cap Value Equity Manager	19.75%	24.75%[1]	29.75%
Small / Mid Cap Equity Manager	3.5%	5.5%[1]	7.5%
International Equity	10%	15%[1]	20%
Total Equity	**40%**	**67%**	**67.5%**
Investment Grade Fixed Income	20%[2]	30%[2]	40%[2]
Cash and Cash Equivalents	0%	3%	30%
Total Fixed Income	**25%**	**33%**	**65%**

[1]Amended 02/13/2014
[2]Amended 10/17/2013

Deviations from this asset mix guideline may be authorized in writing by the Board of Trustees, which may determine if the aggregate deviation constitutes a material departure from the spirit of the target allocation.

The maximum percentage designated for the "Cash and Cash Equivalents" category is intended to apply after the initial start-up of any one portfolio in the Plan. The Board of Trustees recognizes that this initial start-up period to become fully invested could be as long as three months after the initiation of a portfolio.

Rebalancing Procedures

Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall asset allocation, the aggregate asset allocation will be monitored and the Board of Trustees shall review and may rebalance the asset allocation and manager structure. During interim periods between rebalancing, should an allowable range for an asset class be violated, the Board of Trustees may decide whether to rebalance the existing assets to the target asset mix within three months of the time when the deviation is discovered. In addition, the Board of Trustees shall review the actual asset allocation periodically in order to ensure conformity with the adopted strategic asset allocation.

To achieve the rebalancing of the Plan, the Board of Trustees may instruct the City Treasurer to re-direct contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another. The Board of Trustees shall coordinate all rebalancing actions with the Investment Consultant and the Investment Managers.

VII. Investment Return Objectives

In consideration of the Plan's investment goals, demographics, time horizon available for investment and the overall risk tolerance of the Board of Trustees, a long-term investment objective of growth and income has been adopted for the Plan's assets. This is a balanced approach that seeks long-term growth in capital along with significant current income. The primary objective of the Plan's assets are to grow the value of assets over the long-term, to fund all disbursements as they are due, and to earn returns in excess of a passive set of market indexes representative of the Plan's asset allocation.

The Board of Trustees will monitor the performance of the Plan's investments on a quarterly basis. The Board of Trustees will evaluate each investment manager's contribution toward meeting the investment objectives outlined below over a three- to five-year time period and a full market cycle, unless otherwise noted.

Primary Benchmark

1. The real return goal (return after adjusting for inflation) for the Plan is 4%. Inflation shall be measured by the U.S. All Urban Consumers Price Index ("CPI');
2. Meet or exceed the current actuarial investment target rate of return (7.25%[3]) as determined by the Plan's actuary;
3. Performance of the composite portfolio will be compared to a peer group comprised of other Public Retirement Plans.

Secondary Performance Targets

It is desired that the Plan's investments earn returns higher than the "market," as represented by a benchmark index or mix of indexes reflective of the Plan's return objectives and risk tolerance.

[3] *Amended 04/23/2014*

This benchmark or *"policy index"* is to be constructed as follows:

- *49.5% Russell1000*
- *5.5% Russell2000*
- *12.0% MSCI EAFE*
- *30.0% Merrill Lynch Domestic Master 1-10yr.*

The Plan's investments are expected to exceed the average annual return of this benchmark on a risk-adjusted basis* over a three- to five-year rolling time period and a full market cycle.

**Typically based on a Sharpe ratio comparison, however, other risk-adjusted measures may be used.*

VIII. Investment Strategy

Selection Criteria for Investment Managers

Investment managers retained by the Board of Trustees shall be chosen using the following criteria:

- Past performance, considered relative to other investments having similar investment objectives. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results;
- The investment style and discipline of the investment manager;
- How well the manager's investment style or approach complements other assets in the Plan;
- Level of experience, personnel turnover, financial resources, and staffing levels of the investment management firm;
- Reasonable fees, relative to investment style and expected risk and return;
- Ability and willingness to service this account on a customized basis, as described in this investment policy or otherwise agreed to;
- Type and appropriateness of reporting and investor communication materials;
- An assessment of the likelihood of future investment success, relative to other opportunities.

The Plan may utilize a multi-manager structure of complementary investment styles and asset classes to invest the Plan's assets. Any changes to the investment manager structure shall be attached to this investment policy.

The Board of Trustees may retain additional investment managers to invest the assets of the Plan. Additional managers may be expected to diversify the Plan by investment style, asset class, and management structure that may enhance the probability of the Plan achieving its long-term investment objectives.

IX. Investment Guidelines

Investment activity must be consistent within the requirements of this policy, the Investment Manager's agreement with the Fund and applicable laws, including Michigan Public Act 314 of 1965.

For Commingled Investments*: The investment guidelines for any commingled or mutual funds and limited partnerships are detailed in the prospectus or Declaration of Trust for the individual funds. Where there are differences between the investment guidelines of the fund and this investment policy, the Declaration of Trust (or prospectus) shall govern.

**Commingled funds are pooled investment vehicles where investors own shares of the fund, but do not own the underlying investments of the fund. Commingled funds such as mutual funds, limited partnerships or trust funds are sold to investors by prospectus or trust document only. These documents are the controlling investment guidelines of the fund and the investment advisor(s) to the fund have a fiduciary and legal obligation to abide by the provisions of the prospectus (or trust document), but do not have a fiduciary obligation to the Plan. Therefore, should the Plan invest in a pooled investment vehicle, these investment guidelines are not controlling over the fund investment and there is the possibility that fund investments may engage in transactions that are otherwise prohibited by this investment policy. For example, investing in other asset classes that would not otherwise be permitted for an investment manager, utilizing futures and options strategies or cash holdings at higher levels than what is permitted in this policy.*

For Separately Managed Accounts: Investment activity must be consistent within the requirements of this policy, the Plan's management agreement with the investment manager, and applicable laws. Where there are differences between the investment guidelines included in the investment manager's investment management agreement and this investment policy, the investment guidelines included in the investment management agreement shall govern.

A. Asset Allocation

Each investment manager has been delegated responsibility for establishing and maintaining the asset allocation strategy for their individual portfolio.

Unless otherwise noted below, under normal market conditions, each investment manager is expected to be invested consistent with their investment style as described in Section XIV and any relevant investment management agreement with the selected investment advisor(s). During the initial three months of the relationship after being retained by the Plan, the investment manager may hold cash and cash equivalents in larger proportions in order to invest their portfolio on an orderly basis. Thereafter, the manager is expected to follow asset allocation guidelines with respect to cash and cash equivalents outlined in Section XIV of this policy statement.

B. Permitted Securities

Domestic Securities

The securities purchased shall be registered with the Securities and Exchange Commission, and traded on a recognized U.S. stock exchange or over-the-counter-market and be liquid securities.

Equity securities include: common stocks, real estate securities (defined below) and securities convertible into common stock of U.S.-based companies which includes:

Convertible securities include: securities that are convertible into the common stock of U.S. or non-U.S. based companies. This would include convertible bonds, convertible preferred stock, and mandatory convertible securities *(e.g.* PERCs[4], CHIPs[5], ELKs[6]). All convertible securities purchased must be U.S. dollar denominated securities. Individual convertible securities should be rated "BBB" (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. For the purposes of asset allocation, convertible securities shall be considered equities.

[4] *Preference Equity Redemption Cumulative Stock. A limited term, limited participation, convertible preferred stock with an enhanced dividend.*
[5] *Common-linked Higher Income Participation Security- Modeled on PERCs, but unlike PERC, which is issued by the corporation which issued the underlying, CHIPS are issued by a third party, frequently a financial intermediary.*
[6] *Equity-Linked Security- Similar to CHIPs.*

Real Estate Securities Include: Equity REITs mortgage REITs, CMO or mortgage-related securities REITs, Health Care REITs, and equities of real estate operating companies. Equity REITs are those securities that meet the National Association of Real Estate Investment Trusts' (NAREIT) asset mix definition of an equity REIT (currently, equity REITs are those where 75% of assets are equity financed properties). REITs may be perpetual life REITs or finite life REITs.

Fixed Income Securities Include: Domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, U.S. corporations, Yankee bonds and notes (bonds or notes issued by non-U.S. based corporations and governments but traded in the U.S.), securitized mortgages *(e.g.* GNMA's, FNMA's, FHLMC's), collateralized mortgage obligations, asset-backed securities, taxable municipal bonds, and preferred stock.

International Securities

Allowable international securities are limited to: sponsored and unsponsored American Depositary Receipts (ADR's) or American Depositary Shares (ADS's) or other depositary securities of non-U.S. based companies traded in the U.S., closed-end country funds, exchange-traded funds and securities convertible or exchangeable into common stocks of non-U.S. companies.

C. Diversification Requirements

To minimize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio. Subject to the constraints outlined in this investment policy, and the Investment Manager's agreement with the Fund, each investment manager shall have the discretion to determine their portfolio's individual security selections.

Transactions or unanticipated market actions that cause a deviation from these policy guidelines shall be brought to the attention of the Board of Trustees by the Investment Manager prior to executing transactions, when practical. Such deviations may be authorized in writing by the Board of Trustees, which can determine if the deviation constitutes a material departure from the spirit of this policy.

Domestic Large/Mid Capitalization Equity Portfolio(s)

- Investments in any individual equity security should not exceed 5% of the market value of the investment manager's portfolio;
- Holdings of any single issue in each investment manager's portfolio shall not exceed more than 5% of the market value of the total outstanding common stock of any one company;
- The maximum allocation to any single sector in a portfolio shall not exceed the greater of 20% of the market value of the investment manager's portfolio or 150% of the economic sector weighting in the investment managers primary equity policy index. Economic sector definition shall be according to the investment managers own classification, which shall be provided to the Board of Trustees upon request;
- Equities are limited to large and medium capitalization stocks. The minimum market capitalization at the time of purchase should be greater than $1 billion;
- From time-to-time, the investment manager may invest in U.S. dollar denominated equities of non-US companies that otherwise conform to the provisions of this investment policy.

Small/Medium Capitalization Equity Portfolio(s)

- Investments in any one individual security should not exceed approximately 5% of the market value of the investment manager's portfolio;
- Equities are limited to small and medium capitalization stocks. The market capitalization of any one equity security shall be between $100 million and $10 billion at the time of purchase;
- Holdings of any single issue in this investment manager's portfolio shall not exceed more than 5% of the market value of the total outstanding common stock of any one company*;
- There is no constraint on the economic sector allocations of the portfolio. It is understood the investment manager may concentrate portfolio holdings in a limited number of economic sectors from time-to-time;
- From time-to-time, the investment manager may invest in U.S. dollar denominated equities of non-US companies that otherwise conform to the provisions of this investment policy.

**It is recognized, however, that an investment manager's holdings of a single issue in all portfolios firm wide may exceed this limit. This constraint applies only to the Plan's holdings.*

International Equity Portfolio

Subject to the usual standards of fiduciary prudence the investment manager shall have the discretion to determine their portfolio's country allocations. However, the country allocations and portfolio structure should conform to these guidelines:

- Investments in any one security shall not exceed 10%[7] of the market value of the investment manager's portfolio;
- Currency hedging is not permitted (it is recognized, however, that mutual or other commingled funds may engage in hedging activity);

[7] *Amended 04/17/2008*

- No fewer than three countries represented in the portfolio;
- No more than 20% of the market value of the portfolio may be invested in countries not represented in the MSCI EAFE Index plus Canada;
- Non-U.S. dollar denominated equity securities are not permitted;
- No investments in securities of US based companies or convertible into the securities of US based companies.

Fixed Income Portfolio(s)

- Fixed income securities (except for those listed below) shall be rated "BAA"* (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. The minimum dollar-weighted average credit quality rating of the fixed income portfolio is "AA". Asset backed securities, mortgage backed securities, and CMOs shall be rated "AAA" (or its equivalent) at the time of purchase by a nationally recognized statistical rating agency;
- Should a security be down-graded below "BAA-" (or its equivalent), the investment manager will advise the Board of Trustees (or an authorized representative) and the Investment Consultant in writing of this change and be able to provide the Board of Trustees (or an authorized representative) with a recommended course of action;
- Fixed income securities of a single issuer or issue, with the exception of U.S. Government and Agency securities, are limited to no more than 5% of the market value of the portfolio;
- The maximum maturity of any single security should not exceed 31 years. The dollar weighted duration of the fixed income portfolio should be within ±10% of the dollar weighted duration of the performance benchmark;
- No more than 30% of the market value of the investment manager's portfolio may be invested in a single sector of the corporate fixed income market. Sector definitions shall be according to the investment manager's own classifications, which should be provided to the Board of Trustees upon request;
- The investment manager(s) shall not use derivative securities to increase the portfolio risk.

**All rating categories, including qualifiers* "+" *and "-" for S&P and "1", "2" and "3" for Moody's. In the event of a "split rated" security, that is a security with non-equivalent rating classifications from different rating agencies, the lower of the credit quality ratings shall apply.*

Cash and Equivalents

It is generally expected that the investment manager will remain fully invested in equities or fixed income securities; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement some types of investment strategies. Cash reserves shall be held in the custodian's money market fund, short-term maturity Treasury securities, or high quality money market instruments.

**The Board of Trustees, prior to purchase, must approve investments in money market funds other than the custodian's money market fund. For investments in mutual or commingled funds, the prospectus or Foundation documents of the fund(s) will govern the investment policies of the fund investments.*

D. Exclusions

The Plan's assets in <u>separately managed accounts</u> may not be used for the following purposes:

- Short Sales;
- Purchases of letter stock, payments; private placements (including "144A" securities), or direct payments;
- Leveraged transactions;
- Commodities transactions;
- Puts, calls, straddles, or other option strategies;
- Purchases of real estate, oil and gas properties, or other natural resources related properties with the exception of Real Estate Investment Trusts or marketable real estate securities;
- Investments in non-US dollar denominated securities;
- Investments in tax-exempt securities or funds;
- Investments in limited partnerships except for publicly traded Master Limited Partnerships;
- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement;
- Investments by the investment managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Board of Trustees).

The investment manager acknowledges the general guidelines presented in this investment policy and will seek to manage the portfolio in accordance with these guidelines. The investment manager will monitor the portfolio and will use its best efforts to correct any deviations from these guidelines as soon as reasonably practicable.

Transactions or unanticipated market actions that cause a deviation from these policy guidelines shall be brought to the attention of the Board of Trustees by the investment manager prior to executing transactions, when practical. Such deviations may be authorized in writing by the Board of Trustees, who can determine if the deviation constitutes a material departure from the spirit of this policy.

The Board of Trustees, unless approved in writing, prohibits any other security transaction not specifically authorized in this policy statement. Requests by investment managers to execute transactions that are not currently authorized in this policy should be made prior to executing such transactions.

X. <u>Investment Transactions</u>

For separately managed accounts only: Trading for the Plan is directed by and is the responsibility of each investment manager to whom the Board of Trustees has granted the discretionary authority to determine (subject to the investment objectives and policies outlined herein) the securities to be bought or sold on behalf of the Plan, the amount of such securities, and the brokers or dealers to be used in such transactions. The investment manager is generally obligated, absent the Board of Trustees' direction to the contrary, to effect transactions with or through those brokers or dealers that in the investment manager's view are capable of providing best price and execution of client orders.

All mutual fund shares purchased are to be purchased at net asset value and are not subject to the imposition of any sales charges.

XI. Meetings and Communications

For separately managed accounts only:

- As a matter of course, each investment manager shall keep the Board of Trustees or the Investment Consultant apprised of any material changes in the investment manager's outlook, investment policy, and tactics;
- Each Investment manager shall reconcile with the custodian on a monthly basis, and provide monthly statements of assets and transactions to the client;
- A representative of each investment manager shall be available on a reasonable basis for telephone communication or a meeting with the Board of Trustees and the Investment Consultant, at a mutually convenient time and place, to review and explain their portfolio's investment results;
- Any material event that affects the ownership or capital structure of the investment management firm, changes in senior investment personnel or any other material event that affects the management of this account must be reported promptly to the Board of Trustees and the Investment Consultant. This requirement does not include routine employee stock ownership transactions or partnership announcements;
- The Investment Consultant will provide written performance reports for each separately managed account and the composite of these accounts;
- The custodian shall provide monthly statements of assets and transactions.

XII. Performance Evaluation

As noted above, the Board of Trustees, with the assistance of their Investment Consultant will monitor the performance of the investment managers and of the Plan on a quarterly basis.

The Board of Trustees will evaluate each investment manager's success in achieving the investment objectives outlined in this document over the short term as well as over a longer term time horizon. The Board of Trustees realizes that most investments go through cycles. Therefore, there will be periods of time in which the investment objectives are not met or when some investment managers fail to meet their expected performance targets.

The Plan's (and investment manager's) performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to appropriate market indexes for the most recent quarter and for annual and cumulative prior time periods.

The Plan's asset allocation in separately managed accounts and the allocation to any commingled funds shall be reported on a quarterly basis(for the purposes of calculating the asset allocation of the Fund as a whole, the asset allocation of each commingled fund shall be assumed to be fully invested in the policy index to which it is compared).

Risk as measured by volatility, or standard deviation of quarterly returns, shall be evaluated after twelve quarters of performance history have accumulated. An attribution analysis* shall also be performed for the separately managed accounts, to evaluate how much of each portfolio's investment results are due to the investment managers' investment decisions, as compared to the effect of the financial markets. It is expected that this analysis will use the "style index" as the performance benchmark for evaluating both the returns achieved and the level of risk taken.

The investment managers' performance will also be evaluated in similar fashion according to the performance standards summarized in the attached "Performance Standards".

**Performance attribution measures include, but are not limited to, the "stock selection score" and "asset allocation score". These attributions measure the value added (or subtracted) versus the manager's policy index that is attributable to individual security selections and weightings that are different from the policy index standard. The asset allocation score measures the value added (or subtracted) by not continually rebalancing the asset allocation of the manager's portfolio back to the implied asset allocation of the manager's policy index.*

XIII. Guidelines for Corrective Action*

The Board of Trustees recognizes the importance of a long-term focus when evaluating the performance of investment managers. The Board of Trustees understands the potential for short-term periods when the performance of individual managers may deviate from the performance of representative market indexes. The Board of Trustees, however, may consider an extra level of scrutiny, which may include termination, of an investment manager based on the following conditions:

- Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account (such as described in Section XI). Failure on the part of the investment manager to notify the Board of Trustees and the Investment Consultant may be grounds for termination;

- Any material client servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section XI of this investment policy;

- Violation of terms of contract without prior written approval of the Board of Trustees constitutes grounds for termination;

- Diversification strategy - as part of their overall asset allocation strategy, the Board of Trustees may utilize a multi-manager structure of complementary investment styles and asset classes to invest the Plan's assets. Therefore, it is very important that investment, managers remain consistent with the intended investment style at the time the manager was engaged. Any changes or modifications to an investment manager's initial investment style must have prior approval from the Board of Trustees;

- The Board of Trustees will not, as a rule, terminate an investment manager on the basis of short-term performance. If the organization is sound and the firm is adhering to its investment style and approach, the Board of Trustees will allow a sufficient interval of time over which to evaluate performance. The Board of Trustees expects the Investment Consultant will provide guidance to determine an appropriate length of time. The investment manager's performance will be viewed in light of the firm's particular investment style and approach, keeping in mind at all times the Plan's diversification strategy as well as the overall quality of the relationship;

- The investment manager may be replaced at any time as part of an overall restructuring of the Plan. The Board of Trustees reserves the right to terminate an investment manager for any other reason in accordance with any applicable investment management agreements.

**The Board of Trustees recognizes that communication requirements outlined here may not be practical or feasible for commingled or mutual funds in which the Plan may invest.*

XIV. <u>Approval</u>

The City of Owosso Employees' Pension Plan

It is understood that this investment policy is to be reviewed periodically by the Board of Trustees to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the investment managers. Should the Board of Trustees permit a deviation from this policy or implement a change in policy, the circumstances and rationale for the change shall be documented and attached to this investment policy.

The Board understands and agrees that the provisions of this document are subject to any relevant investment advisory agreement and to the extent of any conflict, the terms of the investment advisory agreement controls. The Board further understands that this investment policy statement does not provide any additional rights other than those that are described in the investment advisory agreement.

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Chairman, Board of Trustees *Date*

Investment Manager (Separately Managed Accounts Only)

Deviations from the investment policies and constraints outlined in this document may be authorized in writing by the Board of Trustees, which can determine if the aggregate deviation constitutes a material departure from the spirit of this investment policy.

The Board of Trustees, who can approve and implement changes, will review the investment policy as set forth in this document periodically. If at any time the investment manager believes that these objectives cannot be met or that the investment guidelines constrict performance, the Board of Trustees should *be so notified in writing. By initial and continuing acceptance of these objectives and guidelines, the investment manager agrees to abide by the provisions of this document effective as of* ________________________ , 20____.

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Investment Manager *Date*