

CITY OF KALAMAZOO
CEMETERY PERPETUAL CARE TRUST FUND
INVESTMENT STRATEGY

DUTIES AND RESPONSIBILITIES

1. The Perpetual Care Investment Committee, the “PCIC,” is responsible for recommending to the City Commission the investment policies and strategies for the management of the assets of the Perpetual Care Trust Fund.
2. The City Commission is responsible for approving the policy and strategy recommendations of the PCIC.
3. The Perpetual Care Investment Committee is responsible for the execution of the policies and strategies approved by the City Commission and may select and retain managers, advisors, trustees and other fiduciaries, as well as other necessary services pursuant to all City policies and procedures in consultation with City staff when appropriate.
4. The Perpetual Care Investment Committee is responsible for establishing and monitoring the systems serving as controls over the managers, trustees, advisors, actuaries and other fiduciaries.
5. The Perpetual Care Investment Committee will annually prepare a budget. The budget will be prepared in conjunction with the City’s budget process and procedures and will be approved by the City Commission. Once approved, the PCIC, along with City staff, will have responsibility for managing the expenses within the budget in accordance with all applicable City policies and procedures.
6. Minutes of all meetings will be recorded by the Secretary to the Investment Committee and distributed to all pertinent parties.
7. The Perpetual Care Investment Committee will report in writing to the City Commission all findings from their due diligence visits.
8. The Perpetual Care Investment Committee will issue quarterly reports to the City Commission reporting the performance of the Trust assets.

INVESTMENT STRATEGY

To accumulate and to preserve in perpetuity a pool of assets, the “Trust” sufficient to meet the cash needs of cemeteries owned by the City of Kalamazoo

as outlined in the City Ordinance 1778. The assets of the Perpetual Care Trust will be invested to achieve the maximum long-term, risk adjusted cumulative return possible under the laws and regulations under which these assets can be invested. The long-term investment horizon is considered to be three to four market cycles (over 20 years).

The invested assets will maintain the following disciplined asset mix:

1. A target of seventy percent (70%) of the portfolio's market value will be invested in stock with the balance invested in notes, bonds, equity real estate and short-term securities.
 - a. A target of no more than five percent (5%) of the portfolio's market value will be invested in equity real estate.
 - b. Variations from this target asset mix based on market value will be remedied in a prudent manner through the allocation of annual contributions, liquidations to meet needs of the Trust, and/or the transfer of assets between fund managers.

INVESTMENT ALLOCATION GUIDELINES

The PCIC believes that the Trust's ability to achieve sustained acceptable returns is, in large part, a function of a diversified asset allocation. PCIC members have reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and returns of the aggregate portfolio. The PCIC has selected the following broad asset classes within which the long-only portfolio will be constructed to reflect a slight value bias in equities and a medium-term duration in fixed income.

| ASSET CLASS | TARGET |
|-------------------------------|---------------|
| Equity | |
| U.S. Large Cap Equities | 35.0 |
| U.S. Medium & Small Cap | 25.0 |
| U.S. Micro Cap | 5.0 |
| Non-U.S. Equity | <u>5.0</u> |
| | 70.0 |
| Fixed | |
| U.S. Govt/Corporates | 20.0 |
| Non-U.S. Govt/Corporates | <u>5.0</u> |
| | 25.0 |
| Real Estate | 5.0 |
| Cash & Equivalents | 0.0 |
| Total Portfolio | 100.0 |

RISK MANAGEMENT

In acknowledging the efficiency of capital markets, the PCIC also recognizes that certain risks will be assumed to achieve long-term investment objectives. The PCIC will manage portfolio risk. Investment managers will be expected to make reasonable efforts to manage individual fund investment risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the return within the manager's investment style.

The total portfolio shall conform to a disciplined process of rebalancing that both increases the total return and minimizes investment transaction costs. The portfolio will be reviewed quarterly for target over/under weightings in excess of 5% and at least annually to determine the concentration in each asset class. Any asset class outside of the target range shall be rebalanced back to target weights. Portfolio withdrawals for expenses shall be raised by selling assets from the most over-weighted asset class to minimize the need to rebalance. Portfolio contributions will be made to the most under-weighted assets class to minimize the need to rebalance.

Managers will be monitored for loss of key personnel, changes of control, style drift, and/or excessive or protracted underperformance when compared to benchmarks and to peers operating with the same style basis. Such reviews and recommendations will be discussed at each meeting of the PCIC.

Securities Guidelines

Permissible Equity Investments

Permissible equity investments include preferred stock, common stock, convertible notes and bonds, and real estate investment trusts. Investments in shares of investment companies registered under the U.S. Investment Company Act of 1940 (mutual funds, publicly traded closed-end funds, and ETFs) are permitted.

Permissible Fixed Income Investments

Fixed income investments may include, U.S. Treasury bills, notes and bonds, investment grade fixed income securities of U.S. government agencies, corporations, negotiable certificates of deposits issued by a bank that provides FDIC insurance, collateralized repurchase agreements maturing in 30 days or less where the security interest in the collateral is perfected, municipal bonds, mortgage pass-through, collateralized mortgages and other securitized debt obligations of other government agency notes, bonds and debentures.

Other fixed income investments may also include preferred stocks, convertible preferred stocks and convertible bonds, corporate debt obligations, i.e. commercial paper rated A1/P1 or higher.

Cash Equivalents

Cash equivalent reserves shall consist of cash instruments having a quality rating of A1/P1 or higher. Eurodollar certificates of deposits, time deposits and repurchase agreements are also acceptable investment vehicles.

Restricted Investments

The PCIC must give prior written approval for investing in securities such as; letter stock, private placements and other unregistered securities, options, commodities or other commodity contracts, and short sale or margin transactions. Additionally, securities lending, pledging, or hypothecating securities or investments used for the sole purpose of exercising control of management are outside the allowable investment choices. Derivatives may be used for the preservation of capital gains, but the value of the contract may not to exceed 5% of the underlying asset. Derivatives used to create asset gains are prohibited.