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# **BROOMFIELD PENSION BENEFITS**

#### STATEMENT OF INVESTMENT POLICY

#### City and County of Broomfield Money Purchase Pension Plan for Peace Officers

#### I. Purpose of the Statement of Investment Policy

The City and County of Broomfield offers to its employees, City and County of Broomfield Money Purchase Pension Plan for Peace Officers, a defined contribution plan. The Investment Committee (the "Committee") has developed a Statement of Investment Policy in order to establish guidelines for the selection and monitoring of investment options offered within the Plan. The purpose of this Statement is to document:

- A. the Plan Sponsor's objectives for the retirement investment program,
- B. the method used to structure the investment array,
- C. the criteria for selecting the particular funds within the current array,
- D. the method by which the Committee will monitor the fund performance, and
- E. the fund objective, style and performance benchmarks

The Investment Policy contained herein is intended to be a guide. If a conflict arises between the Plan Trust Documents and the Investment Policy, the Plan Trust Documents will supersede all matters herein.

#### II. Plan Objectives

The overall objective of the City and County of Broomfield offers to its employees, City and County of Broomfield Money Purchase Pension Plan for Peace Officers is to enable eligible employees to save for retirement by providing a tax-deferred savings plan. The fund array offered needs to include enough funds from distinct asset classes to accommodate a broad range of individual investment goals. The fund array is intended to provide Plan participants with a range of investment options that have incremental and identifiable steps up the risk and return spectrum.

### III. Investment Array Selection Criteria

The Committee evaluated historical risk and return characteristics of the major asset classes in order to provide a broad array that offers funds with distinctly different

risk and return characteristics. The Committee determined that the fund array would be comprised of the following asset classes.

#### **Asset Classes**

#### Stable Value

A stable value investment is an instrument in which contractual terms provide for a high assurance of return of principal at a specified rate of interest. A key feature of stable value instruments is their treatment from an accounting standpoint. Provided key criteria are met, stable value instruments can be held at contract value, also known as book value. Book value accounting eliminates the market value fluctuations experienced by other asset classes and contributes to stable, risk-adjusted returns.

#### Fixed Income

Funds in this asset class invest in various types of fixed income securities. They are comprised primarily of bonds (e.g., corporate, government, asset-backed, mortgage-backed) but may also include commercial paper and Government/Agency issues.

#### **Balanced**

Balanced funds are structured to invest in stocks, bonds and cash in varying allocations. These allocations are generally determined by the manager(s) and may take into account current market conditions. The position of the portfolio along the efficient frontier should correspond to an asset allocation of 40% to 65% stocks and 35% to 60% fixed income securities.

## Large Cap Value Equity

Funds in this asset class invest their equity assets primarily in companies with large market capitalizations. Large market capitalization is generally defined as being in excess of \$5 billion. Large cap value funds tend to focus on companies that are less expensive than the market as a whole. These firms may be out of favor with investors due to recent business problems or may simply be growing slower than other companies. These slow growers, which usually fall in the utilities, energy, financial and cyclical sectors tend to pay relatively high dividends and have more stable stock prices. Funds in this asset class will normally have a below-average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the diversified large cap funds average.

## Large Cap Blend Equity

Funds in this asset class invest their equity assets primarily in companies with large market capitalizations. Large market capitalization is generally defined as being in excess of \$5 billion. Large cap core funds focus on companies that are fairly

representative of the overall stock market in both size and price. While these funds have wide latitude in the companies in which they invest, they tend to diversify across the spectrum of U.S. Industries. These funds will normally have an average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the diversified large cap funds average.

## Large Cap Index

Index Funds invest in the securities, or a significant sampling of the securities, which make up a broad-based index such as the Standard & Poor's 500 Index and seek to replicate the returns of the index with a minimum of tracking error. Also referred to as "passively managed," index funds typically have lower expense ratios relative to actively managed funds.

#### Large Cap Growth Equity

Funds in this asset class invest their equity assets primarily in companies with large market capitalizations. Large market capitalization is generally defined as being in excess of \$5 billion. Large cap growth funds tend to focus on companies that are projected to grow faster than the overall stock market. Many of these funds focus on rapidly expanding industries such as technology, health care and services. These funds will normally have an above-average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the diversified large cap funds average.

## Mid Cap Blend Equity

Funds in this asset class invest their equity assets in companies of all sizes but generally focus on companies with market capitalizations of between \$1.5 and 5 billion. Rather than focusing on just a few sectors, these funds spread their assets across industries. Their flexibility makes them some of the most diverse funds available. These funds will normally have an average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the diversified mid cap funds average.

#### **Small Cap Value Equity**

Funds in this asset class invest their equity assets in companies with small market capitalizations. Small market capitalization is generally defined as being approximately \$1.5 billion or less. Small cap value funds seek long-term growth by investing in companies that are considered to be undervalued relative to the market. Many of these funds concentrate on undervalued stocks that have yet to be discovered by other investors, while others focus on stocks of troubled companies with management or growth problems. These funds will normally have a below-average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the diversified small cap funds average.

#### Small Cap Blend Equity

Funds in this asset class invest their equity assets in companies with small market capitalizations. Small market capitalization is generally defined as being approximately \$1.5 billion or less. Small cap core funds have wide latitude in the companies in which they invest. Investments can vary from undervalued, out-of-favor companies to expensive, rapidly growing companies. Therefore, they provide exposure to value sectors such as financials and cyclicals, as well as growth sectors such as health care and technology. These funds will normally have an average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the diversified small cap funds average.

## Foreign Large Cap Blend Equity

International Equity funds invest in any country outside the U.S. Most of these funds divide their assets among a dozen or more developed markets including Japan, the UK, France and Germany. They invest to a lesser extent, or not at all, in emerging markets such as India, China, Brazil, Mexico and Thailand. Some funds are more aggressive in their country selection, which can cause them to carry additional risk. Foreign large cap blend funds focus on companies that are fairly representative of the overall foreign stock market in both size and price. While these funds have wide latitude in the companies in which they invest, they tend to diversify across the spectrum of foreign industries. These funds will normally have an average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the foreign large cap blend funds average.

## Foreign Large Cap Growth Equity

Foreign equity funds invest in countries outside the United States. Most of these funds divide their assets among a dozen or more developed markets including Japan, the UK, France and Germany. They invest to a lesser extent, or not at all, in emerging markets such as India, China, Brazil, Mexico and Thailand. Some funds are more

aggressive in their country selection, which can cause them to carry additional risk. Large market capitalization is looked at in terms of the average market capitalizations in the country where the company is located. Foreign large cap growth funds tend to focus on companies that are projected to grow faster than the overall stock market. Many of these funds focus on rapidly expanding industries such as technology, health care and services. These funds will normally have an above-average price-to-earnings ratio, price-to-book ratio and earnings growth ratio when compared to the foreign large cap blend funds average.

#### **Emerging Markets**

Emerging markets funds invest in securities of issuers located in emerging market economies, or who derive a large portion of their revenues from emerging market countries. These are typically thought of as countries with one or more of the following characteristics: low to middle income economies, a low foreign currency debt rating, relatively low political and economic stability, and/or relatively new development of its financial and capital markets. Such countries are located in Asia, Africa, Latin America, the Middle East and the developing countries of Europe, mainly Eastern Europe.

#### **Blended Asset Classes**

Each of the blended asset class funds is actually a pre-determined portfolio of underlying funds that have been chosen in such a way that the portfolio is diversified across companies, sectors, and even asset classes. These funds are structured to span the risk and return spectrum, with the most conservative option emphasizing bonds, for stability and predictable income, and the most aggressive option emphasizing aggressive growth through stocks. As you move up the risk and return scale, the composition of the funds change from a mix of 15% stocks and 85% bonds to 100% stocks.

## Targeted Portfolio Style

Targeted portfolios offer investment options that provide flexible investment strategies designed to change over specific time horizons. The portfolios use an investment strategy that allocates assets across the major asset classes: stocks, bonds and cash. The asset mix of each portfolio is generated by an investment model that recommends and administers an appropriate asset allocation strategy for each time horizon. The portfolios aim for higher returns early on, investing for the greatest growth during the early years. As the years go by, each portfolio gradually shifts from a more aggressive investment strategy to a less aggressive investment strategy.

#### IV. Fund Selection Criteria

The Committee employed certain qualitative and quantitative measures to evaluate potential investment options.

- A. <u>Investment disciplines</u>. Portfolio managers should consistently invest assets according to the investment objectives stated in the prospectus and the fund's investment record should demonstrate a reasonably consistent investment process.
- B. <u>Performance Measures.</u> Within each category, investment performance should be measured against predetermined appropriate benchmarks based on investment objective, investment style and market capitalization (equity funds). Investment performance should be competitive on a long-term basis within each appropriate asset class.
- C. <u>Investor Access to Fund Information</u>. Investment companies should have a record of providing timely and thorough access to fund performance, fund characteristics and other relevant data.
- D. <u>Firm Quality and Depth</u>. Investment companies should have a history of reliability and a sound financial background. The management of the investment advisor should demonstrate quality and stability and apply a business approach that is consistent with the prudence required of an ERISA plan.
- E. <u>Fees</u>. Fund expenses should be competitive when compared to similar offerings in the fund's peer group.

#### V. Fund Monitoring and Investment Standards

The funds will be reviewed at least once a year and all funds in the plan will be monitored for their adherence to the following investment standards.

- A. <u>Qualitative Analysis.</u> Each fund will be monitored on a consistent basis for adherence to the following qualitative standards:
  - 1. <u>Investment Disciplines</u>. Each fund will be monitored for adherence to its stated investment disciplines. If it is judged that a fund is subject to significant style drift, then the fund will be put on watchlist and may eventually be deleted from the plan.
  - 2. <u>Fund Management</u>. Fund management should remain consistent. A change in one or more key fund managers will require the fund be put on watchlist to assure that fund characteristics and performance will not significantly change under the new management.
- B. <u>Quantitative Analysis</u>. Each fund will be assigned a letter grade based upon its investment performance as measured against its appropriate market index and peer group average (where applicable) using a weighted-average of one-year, three-year

and five-year performance. If five-year history is not available, the three-year and one-year will be used. If a three-year history is unavailable, the one-year number is used exclusively, and the fact that short-term relative performance can vary greatly is noted. Under most circumstances, drawing significant conclusions from short-term performance should be avoided.

#### VI. Watchlist Procedures

- A. <u>Watchlist.</u> While it is recognized that a fund may underperform quantitative standards for extended periods of time due to persistent market cycles, funds with a "C" rating will be placed on watch. The purpose of the watchlist is to identify those funds where relative performance has exhibited a negative trend and/or the qualitative assessment indicates meaningful changes in manager or style; changes that may or may not be accompanied by underperformance. The watchlist review process attempts to clarify the factors causing underperformance as early as possible to determine whether corrective action is necessary, without becoming overly sensitive to the vagaries of short-term performance. During the review process, the following is assessed:
  - 1. <u>Investment Returns:</u> What contributed to the underperformance? Style definition or execution (stock selection and/or portfolio construction)? Does it appear to be a short or long-term trend?
  - 2. <u>Investment Disciplines:</u> Has there been a change in the process by which the manager implements the style, before or after the underperformance? If changes have occurred are they significant, consistent with the philosophy and do they appear reasonable in the light of market conditions?
  - 3. <u>Fund Management:</u> Has there been a change in responsibilities or positions of the key people managing the portfolio and/or issues at the organizational level?
- B. <u>Probation.</u> While it is recognized that a fund may underperform quantitative standards for extended periods of time due to persistent market cycles, funds with a "D" rating will be placed on probation. The purpose of probation is to formally identify those funds where there is sufficient justification to remove from the Plan if relative performance does not exhibit meaningful improvement and/or issues identified during the review process as causing the underperformance are not resolved. A fund search for potential replacements is likely to be initiated for funds with a "D" rating.
- C. <u>Fund Replacement</u>. The Committee has sole discretion to replace a fund. In the event a fund is slated for replacement, the Committee will choose a replacement fund after reviewing the organization, investment process, investment objectives,

investment style, return performance and risk characteristics. Once a fund has been selected, the Committee will coordinate the communication efforts to assist with the transition for plan participants with respect to the new fund introduction.

#### VII. **Participant Investment Education**

The Committee will oversee education and communication efforts. Prospectuses and other fund information will be made available to participants upon request or as required. Participants will be given the opportunity to receive education regarding the fundamentals of investing.

This document is adopted as the Plan Investment Policy Statement for the City and County of Broomfield Money Purchase Pension Plan for Peace Officers.

The City and County of Broomfield Money Purchase Pension Plan for Peace Officers

By: Dramed Smile

Title: Director of HR

Date: 2/25/2011

## Appendix A: Investment Funds, Styles, and Benchmarks

		General Asset		
Fund Name	Ticker	Class Category	Morningstar Peer Group	Market Index
			Hueler Analytics Stable Value	50% ML 1-3 Year Treasury
Wells Fargo Stable Return G	DSRF1	Stable Value	Universe	Index/50% T-bills Index
			Morningstar Intermediate Term	BarCap US Agg Bond
Pimco Total Return Admin	PTRAX	Intermediate Bond	Bond Funds Avg	Index
Wells Fargo Advtg Ttl Return Bond	MNITDY	Intonno di eta Dan d	Morningstar Intermediate Term	BarCap US Agg Bond
Adm	MNTRX	Intermediate Bond	Bond Funds Avg  Morningstar Moderate	Index 60% S&P500/40% BarCap
Oakmark Equity & Income	OAKBX	Balanced	Allocation Avg	US Agg Index
Sudmark Equity & Income	- OTHER	Buruneed	Morningstar Large Value	es rigg maex
MFS Value R3	MEIHX	Large Value	Funds Avg	Russell 1000 Value Index
				S&P 500 Index - 40 bps
Wells Fargo Advtg Index Admin	WFIOX	Large Blend - passive	N/A	(Expense Ratio + 15 bps)
			Morningstar Large Growth	
Janus Twenty T	JAVLX	Large Growth	Funds Avg	Russell 1000 Growth Index
American Funds Growth Fund of			Morningstar Large Growth	
America R4	RGAEX	Large Growth	Funds Avg	Russell 1000 Growth Index
				S&P MidCap 400 - 63bps
Wells Fargo S&P Midcap Index N	DMS1	Mid Cap Blend	N/A	(Exp Ratio + 25bps)
American Century Small Cap Value			Morningstar Small Cap Value	
Inv	ASVIX	Small Value	Funds Avg	Russell 2000 Value Index
Wells Fargo Advtg Small Cap Opp	NIVCOV	Carall Can Dian I	Morningstar Small Cap Blend	Russell 2000 Index
Adm	NVSOX	Small Cap Blend	Funds Avg	Russell 2000 Ilidex
A . E I E D .C C D4	DEDEM	E ' I DI I	Morningstar Foreign Large	MOCIEAEELL
American Funds EuroPacific Gr R4	REREX	Foreign Large Blend	Blend Funds Avg  Morningstar Foreign Large	MSCI EAFE Index (net)
Janus Overseas T	JAOSX	Foreign Large Growth	Growth Funds Avg	MSCI EAFE Index
	0110011			
T. Rowe Price Emerging Markets Stock	PRMSX	Diversified Emerging Markets	Morningstar Diversified Emerging Markets Avg	MSCI EM (Emerging Markets) (net)
Stock	TKMSA	Warkers	Emerging Markets Avg	DJ Target Today Admin
Wells Fargo Advtg DJ Target Today				Index Compliance
Admin*	WFLOX	Asset Allocation	N/A	Composite**
				DJ Target 2010 Admin
Wells Fargo Advtg DJ Target 2010				Index Compliance
Admin *	WFLGX	Asset Allocation	N/A	Composite**
WILL DIE 12020				DJ Target 2020 Admin
Wells Fargo Advtg DJ Target 2020 Admin*	WFLPX	Asset Allocation	N/A	Index Compliance Composite**
Aumin	WILLA	Asset Allocation	IVA	DJ Target 2030 Admin
Wells Fargo Advtg DJ Target 2030				Index Compliance
Admin*	WFLIX	Asset Allocation	N/A	Composite**
				DJ Target 2040 Admin
Wells Fargo Advtg DJ Target 2040	WEI WY	A A 11	NI/A	Index Compliance
Admin*	WFLWX	Asset Allocation	N/A	Composite**  DJ Target 2050 Admin
Wells Fargo Advtg DJ Target 2050				Index Compliance
Admin*	WFQDX	Asset Allocation	N/A	Composite**
147 11 E A 1 . D T		•	•	

<sup>\*</sup>Wells Fargo Advantage Dow Jones Target Date Funds Benchmark \* Effective June 26, 2006, the Funds are sub-advised by Global Index Advisors, Inc. ("GIA") and will be managed to track the performance of the Dow Jones Target Date Indexes before fees and expenses. Prior to this date, the funds were known as the Wells Fargo Advantage Outlook Funds and were managed in a primarily passive approach which differed from the Dow Jones Target Date Indexes. As represented above, each Fund's name has been changed to correspond to the name of the Dow Jones Target Date Index

that it will seek to replicate. For the purpose of Investment Policy Compliance reporting, returns of the funds prior to this change in investment objective are not incorporated into this report.

\*\*The DJ Target Index Compliance Composite returns represent the returns of the corresponding Dow Jones Target Date Index with adjustments to accommodate the expense ratio of the fund along with the established tracking error tolerance for the fund which ranges from 0.18% for the Today Fund to 0.33% for the 2040 Fund based on each fund's underlying asset allocation, for the purpose of Investment Policy Compliance monitoring. Also included in this adjustment is a supplemental monthly tolerance allowance of 0.08% applied evenly on a monthly basis from July, 2006 through March, 2007 to accommodate the transition from the previous Outlook funds investment strategy to the new Dow Jones Target Date Index strategy.