


## EL PASO COUNTY RETIREMENT PLAN

### STATEMENT OF INVESTMENT POLICY

June 1, 2020

This Statement of Investment Policy approved by action of the Retirement Board of the El Paso County Retirement Plan.

DATE: 5/29/2020

APPROVED BY:  DocuSigned by:  
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# **Investment Policy Statement El Paso County Retirement Plan**

**June 1, 2020**

## **Overview**

The El Paso County Retirement Plan, sometimes hereinafter referred to as the "Plan", is a multiple employer defined benefit pension plan providing retirement benefits to eligible employees of: (i) El Paso County; (ii) El Paso County Health Department; (iii) Pikes Peak Library District; (iv) 4th Judicial District Attorney's Office; (v) El Paso County Board of Retirement; and (vi) any other agency or district approved by the Retirement Board. The Plan is funded by contributions from participating employees and by matching contributions from the Plan sponsors. These contributions are paid into the Retirement Fund of El Paso County, sometimes hereinafter referred to as the "Fund".

This Investment Policy Statement ("IPS") is intended to allow for sufficient flexibility in money management to ensure the capture of investment opportunities, yet provide broad parameters that will ensure prudence and care in the execution of the investment program.

The Board maintains a separate Investment Strategy document that is designed to be reviewed and, if necessary, revised annually. The Investment Strategy document is an integral part of the Fund investment guidelines.

## **Investment Objectives**

The objective of investing the assets of the Plan is to grow the assets over time at a compound rate of increase that, together with employee and employer contributions, will assure payment of benefits stipulated by the Plan. The compound rate of increase is defined as the actuarial assumed rate of return. The Board of Retirement recognizes that the rate of return objective is long term in nature, and that actual year-to-year returns achieved may be above or below the long-term target.

The Board of Retirement further expects the investments to provide a competitive return relative to other investments available that would meet the asset allocation strategy.

## **Responsibilities**

### **Board of Retirement**

Under Article 54, Title 24, of the Colorado Revised Statutes, the County Board of Retirement shall have full and complete control and management of the Plan. The Board of Retirement shall make all necessary rules and regulations for managing and discharging its duties.

The primary fiduciary responsibility of the Board is to ensure prudent investment and expenditure of Plan assets. It is the responsibility of the Board to administer the investments of the Plan at reasonable cost, being careful to avoid diminishing quality. The Board shall oversee the investment program in compliance with all applicable federal and State laws and regulations concerning the investment of pension assets.

The Board of Retirement is responsible for establishing and maintaining this IPS, as well as the selection of a qualified Outsourced Chief Investment Office firm responsible for the day to day management of the portfolio. The Board is responsible for monitoring the investments of the Fund on an ongoing basis.

### **Outsourced Chief Investment Office (OCIO)**

The Board of Retirement has retained an independent outsourced chief investment office firm to develop, implement, monitor and report on the results of the investment program. This includes rebalancing the portfolio on a regular basis to maintain the approved asset allocation and provide liquidity for regular benefit payments

The Board of Retirement has delegated the authority to retain qualified investment management firms to manage the assets of the investment program to the OCIO service provider. Retained investment management firms will be responsible for managing their portion of the investments with full discretionary investment authority, subject to the Policies and Guidelines set forth in this and other documents. The OCIO firm is expected to meet at least quarterly, if requested, with the Board and provide monthly reports on portfolio activity, investment performance and investment strategies. Further, the OCIO firm will be responsible for notifying the Board of any significant organizational changes, such as key personnel, ownership, investment process or style.

If at any time the OCIO believes that any aspect of the policy guidelines inhibits the investment

performance of the account, it is the OCIO's responsibility to clearly communicate this view to the Executive Director as soon as reasonably possible.

### Executive Director

The Executive Director is appointed by, and serves at the pleasure of the Board. The Director is responsible for planning, organizing, and administering the operations of the El Paso County Retirement Plan under broad policy guidance and direction from the Board.

### Asset Allocation Strategy

Strategic asset allocation is designed to provide the highest probability of meeting or exceeding the Plan's objectives at a controlled level of risk that is acceptable to the Board. The asset allocation strategy is designed to reflect, and be consistent with, the long-term investment objective expressed in this IPS. Various asset classes and investment manager styles are used to create a broadly diversified portfolio. Both the actuarial return assumption and the asset allocation strategy will change through time to reflect current investment objectives and market conditions. The Board has developed and approved long-term asset allocation 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. Based on the Board's analyses, the allowable long-term asset allocation ranges are outlined below.

Asset Class	Target	Lower Range	Upper Range
<i>Total Growth</i>	48.25%	38.25%	58.25%
<i>Total Fixed Income</i>	20.50%	15.50%	25.50%
<i>Total Real Assets</i>	19.50%	14.50%	24.50%
<i>Total Diversifying Alternatives</i>	11.75%	8.50%	15.00%
<i>Total Assets</i>	100.0%		

1. **Growth:** The purpose of the Growth segment is to achieve a total return that, over a market cycle, provides for growth in principal and current income (along with that from the Fixed Income allocation) sufficient to support current benefit payments. Underlying investments provide the portfolio with exposure to global economic growth risk and seek to capture capital appreciation and current income from both public and private opportunities. It is recognized that the pursuit of this objective could entail the assumption of greater market variability and risk.

2. **Fixed Income:** The purpose of the Fixed Income segment (bonds and cash equivalents) is to provide diversification to reduce the overall volatility of the portfolio, and therefore reduce the variability of contribution amounts required. This segment also provides for current income and liquidity in support of current benefit payments. The Fixed Income segment may be invested across both investment grade and below investment grade opportunities and may include both fixed rate and floating rate obligations.
3. **Real Assets:** The purpose of the Real Asset segment is to generate current income and provide capital appreciation. In addition to providing the Fund with the benefits of diversification, these investments also provide return sensitivity to inflation. Investments may include public and private investments in TIPS, real estate, infrastructure, agriculture/timber and commodities.
4. **Diversifying Strategies:** The purpose of the Diversifying Strategies allocation) is to provide uncorrelated sources of return versus traditional equity and fixed income classes. This allocation is expected to provide further diversification and reduce the overall volatility of the portfolio. Underlying investments may include exposure to marketable alternatives, risk balancing strategies, and unconstrained multi-asset class opportunities.

### **Liquidity**

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 at the custodial bank. The appropriate level of cash reserves will depend upon anticipated liquidity needs as determined by the Executive Director on an ongoing basis.

### **Rebalancing**

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 long-term target, 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 above.

When any asset class breaches an upper or lower limit as defined in the Investment Strategy document, the asset class will be rebalanced to within its strategic asset allocation target range within ninety (90) days. Within this ninety day window it may be impractical or costly to reallocate capital towards less liquid investment strategies within each major asset category.

Over the longer term, less liquid strategies may be used to optimize the implementation of each major asset class in a manner that is consistent with the strategic asset allocation. The Board has authorized the OCIO to rebalance the portfolio in accordance with policy guidelines on an on-going basis. The goal in implementing the rebalancing policy is to minimize transaction costs, market impact, and opportunity costs.

## **Investment Guidelines**

### Fiduciary Standard

The Plan assets shall be invested and managed as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances. In satisfying this standard, all fiduciaries shall exercise reasonable care, skill and caution. Investment decisions should be evaluated within the context of the entire portfolio (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.

The Plan is a noninsured trust retirement plan, with a bank or trust company authorized to exercise trust powers in Colorado as trustee. As per Section 24-54-112 of the C.R.S., the Fund will be invested using the "Colorado Uniform Prudent Investor Act" found in the provisions of Part 3 of Article 1 of Title 15, C.R.S.

### Investment Discretion

While the Board has delegated the authority to retain underlying investment managers to the OCIO, investments shall be fully consistent with the underlying manager's stated strategy and approach. Allowable investments are restricted by the Fiduciary Standard section and all investment managers will be held to the Fiduciary Standard.

Separate accounts or pooled funds may be used based upon the most favorable approach for the Plan'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 Policy.

### Securities Trading

Underlying investment managers have a fiduciary obligation to obtain best execution for the Fund's investments. Transactions must be executed in such a manner that the Fund's total cost or proceeds in each transaction is the most favorable under the circumstances of the particular transaction. The manager should consider the full range and quality of a

broker's services in placing trades, including, among other things, the value of research provided, execution capability, commission rate, financial responsibility, and responsiveness to the manager.

### Proxy Voting

Investment managers have a fiduciary obligation regarding proxy voting. The investment manager must consider proxies as an asset of the Plan and is expected to vote only in the best economic interest of the participants of the Plan.

### **Review Standards**

All objectives and policies are in effect until modified by the Board, which will review these at least annually for their continued pertinence.

The Plan portfolio will be monitored on a continual basis for consistency in investment philosophy, return relative to objectives, and investment risk as measured by asset concentrations, exposure to extreme economic conditions, and market volatility. Portfolios will be reviewed by the Board on a quarterly basis, and results will be evaluated over rolling three- to five-year periods. The OCIO will regularly review each investment manager in order to confirm that the factors underlying the performance expectations remain in place.

The OCIO will report the following information on a quarterly basis: total return (on a time-weighted basis) net of all commissions and fees, additions and withdrawals from the account. Regular communication concerning investment strategy and outlook is expected, including a review of the performance of the underlying investment strategies. In addition, the OCIO is required to inform the Executive Director promptly of any material change in firm ownership, organizational structure, professional personnel, account structure (e.g., number, asset size and account minimum), major investment adjustments, or fundamental investment philosophy.

### Monitoring the Outsourced Chief Investment Office

OCIO performance should be measured by how they construct the risk and return characteristics of the Plan portfolio as compared to the policy portfolio benchmark. The investment return of the Total Fund and each asset class shall be compared to their appropriate market benchmark, and the risk adjusted fund performance shall be measured against other like funds or peer group.

The OCIO directed 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 OCIO firm will be contacted to develop a mutually agreed upon solution to bring the portfolio back into compliance with this Policy. If the OCIO fails to move the portfolio into compliance, termination of the OCIO 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 investment performance relative to the designated benchmarks.

The Board of Retirement retains the right to terminate the OCIO firm for any reason subject to the terms of the agreement between the two parties.