INVESTMENT POLICY STATEMENT

For

City of Battle Creek Police and Fire Retirement System

December 2019

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PURPOSE & BACKGROUND

The purpose of this Investment Policy Statement (IPS) is to assist the City of Battle Creek Police and Fire Retirement System Board of Trustees ("the Board") in establishing guidelines for selecting and managing the City of Battle Creek Police and Fire Retirement System ("the System") investments and to provide a framework for making consistent investment decisions in accordance with the stated goals, return objectives, risk tolerance, and time horizon of the System. Specifically, the IPS is intended to:

- Outline the Board's expectations, objectives, and guidelines with regard to the investment of the System's assets.
- Set forth a structure for managing the System's investments.
- Provide guidelines for the level of overall risk and liquidity assumed in the portfolio.
- Establish criteria to monitor, evaluate, and compare the performance results achieved by the Investment Managers.

RESPONSIBILITIES

The Board – The Board has been delegated the responsibility for the management of the System's assets. The specific responsibilities of the Board relating to the investment management of the System's assets include:

1. Complying with applicable law and regulations.
2. Determining the System's risk tolerance and investment horizon and communicating these to the appropriate parties.
3. Establishing reasonable and consistent investment objectives, policies, and guidelines which will direct the investment of the System's assets.
4. Prudently and diligently selecting qualified investment professionals, organizations including an Investment Consultant, Investment Manager(s), and Custodian(s).
5. Regularly evaluating the performance of the Investment Managers to assure adherence to policy guidelines and monitor investment objective progress.
6. Developing and enacting proper control procedures.

Investment Consultant – The primary role of the Investment Consultant is to assist the Board in fulfilling their responsibilities by providing information, analysis and a prudent process that contributes to the success of the investment program. The Investment Consultant is a nondiscretionary advisor who will assist the Board in: establishing investment policy, objectives and guidelines, as well as developing a strategic asset allocation intended to achieve said policy, objectives and guidelines; identifying appropriate investment management firm candidates for review and selection; ongoing monitoring of investment management firms and strategies, and addressing any developments that might impact performance; educating and updating the Board on investment issues that might impact the System; and other specific responsibilities as defined in a separate written agreement.

Investment Manager(s) – The Investment Manager(s) have discretion to purchase, sell, or hold specific securities that will be used to meet the System's investment objectives as provided by this IPS, or, in the case of a fund of funds strategy, hire or terminate individual managers and determine allocations to these managers and appropriate investment strategies. The Investment Manager(s) will be evaluated based on criteria established in this written IPS. Investment Manager(s) that may be hired include, but are not limited to, mutual funds, exchange traded funds (ETFs), separate account investment management firms, hedged strategies, private equity funds, real estate funds, fund of funds, and other specific investment strategies.

Custodian – The Custodian will maintain possession of securities owned by the System, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The Custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the accounts.

Co-Trustee - The Committee may appoint an outside individual or entity, such as a bank trust department, to be Co-Trustee. The Co-Trustee will assume fiduciary responsibility for the administration of the System's assets.

Additional specialists such as attorneys, auditors, actuaries, and others may be employed by the Board to assist in meeting its responsibilities and obligations to administer the System's assets prudently.

STATEMENT OF OBJECTIVES

The objectives of the System have been established in conjunction with a comprehensive review of the System's financial requirements, including the Board's goals, expectations, and ability to tolerate risk, and the System's investment time horizon, present investment allocation, and financial liquidity requirements.

The objectives include, but are not limited to the following:

- To maintain the purchasing power of the current assets and all future contributions
- To have the ability to pay all benefit and expense obligations when due
- To maintain flexibility in determining the future level of contributions
- To maximize return within the risk tolerance parameters set by the Board, and to provide exposure to a wide range of investment opportunities in various markets while reducing risk exposure through prudent diversification
- To maintain balance between growth with inflation protection and income with stability of principal in the portfolio
- To control the costs of administering and managing the System's investments
- To maintain adequate cash reserves
- To monitor the System's investments periodically in order to make timely decisions as to policy and strategy
- To safeguard the System's assets by utilizing independent custodians
- To comply with the Michigan Public Act 314 of 1965

GUIDELINES AND INVESTMENT POLICY

Time Horizon

The investment guidelines are based upon a long-term investment horizon; therefore, cyclical fluctuations should be viewed with appropriate perspective. Similarly, the strategic asset allocation is based on a long-term perspective.

There is a need to maintain sufficient liquid reserves to provide for near-term distributions. The Board should notify the Investment Consultant and/or the Investment Manager(s) well in advance of distribution requests to allow sufficient time to build up necessary liquid reserves.

Risk Tolerance

It is important to recognize the element of uncertainty around achieving the investment objectives in light of the risks and complexities present in global investment markets. The Board recognizes and acknowledges that some degree of risk must be assumed in order to achieve the long-term investment objectives.

In establishing risk tolerance, the ability to withstand short and intermediate term variability was considered, leading the Board to conclude that risk tolerance is balanced. The Board desires a portfolio that is balanced between lower volatility investments with lower potential returns and more volatile investments with higher potential returns.

Performance Expectations

The Board has reviewed the actual historical-long-term return and risk characteristics of various asset allocation strategies, as well as modeled range of return expectations for a portfolio with weightings similar to the target asset allocation policy as summarized in Exhibit 1.

The Board understands that both capital market expectations and the actual returns of our portfolio will depend on the future investment and economic environment, and that historical performance may not be indicative of future results.

Asset Allocation

Consistent with the performance expectations and in consideration of our investment time horizon, risk tolerance, performance expectations, and asset class preferences, the following strategic asset allocation was constructed:

Fixed Income Investments	45%
Equity Investments	55%

Fixed income investments may include, but are not limited to, individual bonds, bond mutual funds, ETFs, separately managed accounts, and cash. Equity investments may include, but are not limited to, individual stocks, stock mutual funds, ETFs, and separately managed accounts. In addition, Alternative investments classes may be used in the portfolio in order to enhance returns and/or reduce the risk of the overall portfolio. Alternative investments are generally those that are neither traditional equity nor traditional fixed income, or that have a risk/return profile that may not be representative of traditional equity or fixed income asset or sub asset class and, as such, may be reasonably expected to perform differently over various points in the business cycle than traditional fixed income and equity investment. Within each, implementation vehicles may include liquid and illiquid options, and may include mutual funds, ETFs, separately managed accounts, and limited partnerships. Investments may include single strategy funds, multi-strategy funds, or funds of funds.

When allocating a portion of the portfolio to alternative investments, PMFA will assist in determining how to integrate such strategies into our diversified portfolio, and the degree to which such investments should be funded via a reduction to fixed income, equities, other alternative investments, or a combination thereof.

The Board recognizes the importance and potential favorable impact that tactical asset allocation can provide within a portfolio. Examples of tactical shifts or opportunities that PMFA may propose include, but are not limited to, under/over weighting within equity allocations with respect to market capitalization (large cap vs. small/mid cap), investment style (growth vs. value) and global allocations (US vs. International Developed/Emerging), altering bond duration within core fixed income allocations (given interest rate and/or inflation expectations) as well as fixed income sector opportunities and expanded use of alternative investments in compliance with the Michigan Public Employee Retirement System Investment Act 314 of 1965.

Changes to the strategic allocation specified above will warrant a new Investment Policy Statement. See the plans quarterly investment report for a detailed breakdown of the strategic allocation at the sub-asset class level (e.g. core bonds, opportunistic bonds, small cap equities, international equities, hedge funds, etc.).

Asset Allocation Constraints

Rebalancing will be considered when the actual percentage allocation varies materially (generally 5 percentage points or more) from the target allocation. Subject to practical constraints, rebalancing will also be strongly considered when the actual percentage allocation of a sub-asset class varies by more than 20% from the target allocation identified in the quarterly investment report. However, a variety of factors may warrant the exercise of prudent judgment in rebalancing decisions rather than strictly adhering to a quantitative threshold. When necessary and/or available, cash inflows will be deployed and outflows will be generated in a manner consistent with the asset allocation targets.

IMPLEMENTATION GUIDELINES

The Board intends to implement the System's policy with mutual funds, ETFs, separately managed accounts, illiquid Alternative Investments, or other investment options of the Board's choosing. Separate account managers are expected to comply with Michigan Public Employee Retirement System Investment Act 314 of 1965 and terms set forth in this document.

When selecting investment options, the Board, with the assistance of the Investment Consultant, will employ a competitive search process, which includes, but is not limited to, the following steps:

1. Identification of qualified candidates from Investment Manager search databases maintained by the Investment Consultant or an independent third party.
2. Analysis of qualified candidates in terms of quantitative, qualitative and organizational factors.
3. Selection of Investment Managers. Mutual funds, ETFs, and managers should meet the following minimum criteria:

    (1) A fund should correspond to a sub-asset class identified in the investment report provided by the Investment Consultant and should be primarily invested in that sub-asset class.

    (2) A fund's manager should have a track record managing assets with a similar style.

(3) In aggregate, the various share classes of the fund, as well as the separate account assets of the portfolio management firm sub-advising the mutual fund that are run under similar composite, should be sufficient to avoid an excessive concentration in the strategy.

Performance Evaluation and Review

With the assistance of the Investment Consultant, the Board will regularly evaluate the performance of each investment option. In evaluating each investment option, the Board will consider qualitative factors likely to impact the future performance of the investment option in addition to current and historical rates of return.

REPORTING AND MONITORING REQUIREMENTS

Actuarial Policy

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to annual review by the Committee. This review will include consideration of major differences between the System's assumptions and actual experience.

Monitoring of Investment Managers

The Investment Consultant should prepare periodic investment reports that summarize the activity of the investments during the period reviewed, including investment performance and current asset allocation compared to desired asset allocation. The investment report prepared by the Investment Consultant will include benchmarks for comparison to each of the implementation options utilized within the portfolio. It is understood that benchmarks are a tool that can assist in evaluating the performance of a given manager or strategy. There may be circumstances in which multiple benchmarks and other supplementary quantitative or qualitative information may provide greater context for evaluation. It is further understood that there are likely to be periods during which Investment Manager performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with investment managers employing similar styles.

The portfolio will be compared to a benchmark which is outlined in the quarterly investment report, weighted in accordance with the strategic and tactical asset allocation. Weightings to each component of the portfolio benchmark may be updated if there is a material change in the relative allocations to the strategic and/or tactical allocation.

STATEMENT REVIEW/AUTHORITY

The Board will have sole authority to make changes to this IPS. It will be reviewed periodically by the Board to evaluate the need for any updates. It is expected that changes, if any, will be infrequent. Any adjustments should be made as a result of material progress toward the financial goals or changes in the required rate of return, investment time horizon, or tolerance for risk, and will not be made in response to short-term changes in capital market conditions.

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2/18/20

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2/18/20

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Stanley Chubinski — 2-18-20

Stanley Chubinksi, — Date
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EXHIBIT 1

Risk-Return Chart – Performance Illustration as of 2019 (Pre-Tax Returns)

Portfolios	Expected Returns: 1-Yr. Range of Returns (1)(2)	Expected Returns: 5-Yr. Range of Returns (1)(2)	Expected Returns: 10-Yr. Mean Return (1)	Historical Returns 1926-2018: 1-Yr. Range of Returns (1)(2)	Historical Returns 1926-2018: 5-Yr. Range of Returns (1)(2)(3)	Historical Returns 1926-2018: Annual Pre-Tax Return (1)	Historical Returns 1926-2018: Lowest Annual Return (%)	Fixed Income Type (%)	Equity Type (%)
Very Conservative	(2.8)-10.7	0.8-6.8	3.7	(6.3)-15.4	(1.7)-10.8	4.5	(7.4)	100	0
	(2.7)-10.8	1.0-6.9	3.9	(5.6)-15.4	(1.2)-11.0	4.9	(5.7)	95	5
	(2.7)-11.4	1.0-7.4	4.2	(5.3)-15.8	(0.7)-11.3	5.2	(6.2)	90	10
	(2.9)-12.6	1.0-8.0	4.5	(5.4)-16.5	(0.4)-11.7	5.6	(8.3)	85	15
	(3.8)-13.9	0.7-8.7	4.7	(5.8)-17.7	(0.2)-12.1	5.9	(10.4)	80	20
	(4.9)-15.3	0.4-9.4	4.9	(6.5)-19.1	(0.2)-12.7	6.3	(12.4)	75	25
Conservative	(5.9)-17.9	(0.1)-10.1	5.1	(7.5)-20.7	(0.2)-13.4	6.6	(14.5)	70	30
	(7.2)-20.1	(0.7)-10.9	5.3	(8.6)-22.4	(0.4)-14.1	6.9	(16.5)	65	35
	(8.6)-22.3	(1.2)-11.8	5.5	(9.9)-24.3	(0.6)-14.9	7.2	(18.6)	60	40
Balanced	(9.8)-24.9	(1.8)-12.7	5.7	(11.3)-26.2	(0.9)-15.8	7.5	(20.7)	55	45
	(11.3)-27.7	(2.5)-13.6	6.0	(12.7)-28.3	(1.2)-16.7	7.8	(22.7)	50	50
	(12.8)-30.2	(3.1)-14.6	6.1	(14.2)-30.3	(1.7)-17.6	8.0	(24.8)	45	55
Moderate	(14.2)-32.7	(3.8)-15.7	6.3	(15.8)-32.4	(2.1)-18.6	8.3	(26.9)	40	60
	(15.5)-35.1	(4.5)-16.6	6.4	(17.4)-34.5	(2.6)-19.5	8.5	(28.9)	35	65
	(16.7)-37.3	(5.2)-17.6	6.6	(19.1)-36.6	(3.2)-20.5	8.8	(31.0)	30	70
Aggressive	(18.0)-39.8	(6.0)-18.5	6.7	(20.7)-38.8	(3.7)-21.5	9.0	(33.0)	25	75
	(19.5)-42.5	(6.7)-19.6	6.8	(22.5)-40.9	(4.3)-22.5	9.2	(35.1)	20	80
	(20.8)-45.1	(7.5)-20.8	7.0	(24.2)-43.1	(5.0)-23.6	9.4	(37.2)	15	85
Very Aggressive	(22.0)-47.9	(8.0)-21.7	7.1	(25.9)-45.2	(5.7)-24.6	9.6	(39.2)	10	90
	(23.3)-51.0	(8.7)-22.7	7.2	(27.7)-47.4	(6.4)-25.6	9.8	(41.3)	5	95
	(24.5)-54.2	(9.3)-23.7	7.3	(29.5)-49.5	(7.1)-26.7	10.0	(43.3)	0	100
INFLATION (CPI)			2.25			2.9			

Past performance does not guarantee future results. Expected returns are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. This chart needs to be read in conjunction with the disclosures pages, "Analysis: Risk-Return Chart (Pre-Tax)."

This data is provided to assist you in making your asset allocation decision. The determination of your risk tolerance plays an important role in your long-term asset allocation. The "range of returns" provides an indication of the potential variability of returns for a variety of portfolios across the asset allocation spectrum, illustrating the tradeoff between market risk (volatility) and return. Reviewing these ranges may help you measure your risk tolerance to withstand losses in your portfolio. All returns assume the portfolio is rebalanced to the fixed income equivalent allocation percentages annually. This illustration reflects unmanaged, costless indices which are not available for direct purchase.

Historical data is absent of current economic considerations, which could potentially influence the average annual rates of return and range of returns. In consideration of that, we show expected returns calculated by Callan Associates for the next 10-year period. Callan's analysts incorporate a variety of current economic data (such as current interest rates, stock price/earnings ratios, and stock price/cash flow ratios, etc.) with historical data to derive expected ranges of returns from diversified portfolios. The expected returns illustrated are computed using optimization software to create efficient portfolios across the risk spectrum using Callan Associates' capital market projections. Bonds are represented by Broad Fixed Income, while equity asset classes include Broad Domestic Equity and International Equity. Due to the fact that Callan's capital market projections are based on a 10-year timeframe, the expected returns may differ somewhat from historical data because of the incorporation of more current information. Since investors' time horizons often extend beyond a 10-year timeframe, it's important to consider both expected returns and historical returns in setting your expectations.

These expected performance returns are hypothetical projections and represent the likelihood of possible investment outcomes. They do not reflect actual investment results and are not guarantees of future results. Hypothetical performance has many inherent limitations, some of which are described in this disclosure. No representation is made, nor should it be inferred, that any portfolio will or is likely to achieve profits or losses similar to those shown. Returns for investments in the asset allocations shown may not fall within these projected returns. These results are projections of possible outcomes and cannot reflect the impact that material economic and market factors might have on an advisor's decision *making if the advisor actually manages the clients' funds. These results assume maintaining positions during periods of severe market decline and do not take into account a client's ability to sustain losses. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. Returns shown assume the reinvestment of all distributions. These projections were derived from the projection of indexes and do not represent the actual investment recommendations of the advisor. All investments have risk; inherent in any investment is the potential for loss as well as gain.*

Historical returns are based on bond and equity equivalent allocations. The bond allocation is represented by 50% T-Bills/50% Long-Term Treasury Bonds. The equity equivalent allocation is represented by the S&P 500 Index. Past performance does not guarantee future results. Performance results were calculated assuming reinvestment of all distributions and other earnings.

Footnotes

(1) *Compounded annually.*

(2) *The "Range of Returns" represents the range in which approximately 95% of the one and five-year pre-tax returns are projected to fall based on Callan's 10-year model, or the range in which approximately 95% of the one and five-year pre-tax returns are projected to fall based on historical risk and return data for the period 1926-2015. Assuming a normal distribution of returns, there is approximately a 2.5% probability that the return could be worse than the low end of the range and approximately a 2.5% probability that the return could be better than the high end of the range.*

(3) *The five-year historical range of returns includes five-year rolling annual periods from 1926 to 2015. Therefore, certain periods (1926-1929 and 2012-2015) are included on the rolling data less than five times. Due to the exclusion of this data, the average pre-tax rate of return used for the five-year ranges differs slightly from the annual pre-tax rate of return shown for the period 1926-2015.*