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|  <p style="text-align: center;"><b>Other Post-<br/>Employment Benefits<br/>(OPEB) Investment<br/>Policy</b></p> | <b>Citywide Policy Manual</b>                             |
|                                                                                                                                                                                                  | Attachments: N/A                                          |
| <b>Effective Date:</b><br>December 3, 2024 <del>December 5, 2023</del>                                                                                                                           | <b>Responsible Department:</b><br>Administrative Services |
| <b>Related Policies &amp; Notes:</b><br>City Investment Policy, Pension Investment Policy                                                                                                        |                                                           |

**Overview**

In response to the Government Accounting Standards Board (GASB) Statement No. 45, replaced by GASB Statement No. 74 and GASB Statement No. 75, new disclosure requirements for Other Post-employment Benefit (OPEB) Plans, the City of Cupertino has adopted a Section 115 Trust and Plan that seeks to satisfy these liabilities for certain eligible employees

**Executive Summary**

Account Name: City of Cupertino OPEB Trust  
Account Number: 6746035000  
Investment Authority: Full Investment Authority  
Current Assets: \$40.7 ~~33.6~~ million (September ~~2023~~ 2024)  
Time Horizon: Long-Term  
Target Rate of Return: 6.5%  
Communication Schedule: Meetings will be conducted at least quarterly

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### **Investment Objective: 'Balanced'**

This investment objective is designed to provide a moderate amount of current income with moderate growth of capital. Investors should have sufficient tolerance for price and return volatility and substantial periodic declines in investment value. This objective is recommended for investors with a long-term time horizon.

The strategic asset allocation ranges and tactical targets for this objective are listed below:

| <b>Asset Class</b>  | <b>Range</b> | <b>Benchmark Target</b> |
|---------------------|--------------|-------------------------|
| <b>Fixed Income</b> | 20-40%       | 29%                     |
| <b>Equities</b>     | 50-70%       | 63%                     |
| <b>Real Estate</b>  | 0-15%        | 5%                      |
| <b>Commodities</b>  | 0-10%        | 2%                      |
| <b>Cash</b>         | 0-10%        | 1%                      |

### **Investment Guidelines**

#### **Overview**

This document defines the investment policy, guidelines and performance objectives applicable to the assets of The City of Cupertino's OPEB Trust. The goal of this Policy is to create an investment framework within which the assets can be actively yet prudently managed.

The purpose of this document is threefold.

- First, it will set forth an investment structure for managing the Portfolio assets. This structure is expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
- Second, it will serve as to encourage effective communications between the organization and parties involved with investment management decisions.
- Third, these guidelines will provide a framework to measure ongoing investment performance.

Within the constraints imposed by these policies, Investment Managers are expected to comply with all applicable fiduciary and due diligence requirements under the "prudent investor" rules, which state: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of

their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." All applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the Portfolio are to be adhered to.

### **Diversification**

Your Portfolio Manager is responsible for maintaining the balance between the various asset classes based on the investment objective's strategic asset allocation. As a general policy, the Investment Manager will maintain reasonable diversification at all times by asset class, credit quality, issuer, sector, industry, and country.

The following parameters shall be adhered to in managing the portfolio:

#### **Fixed Income Assets**

- The fixed income investments are to maintain intermediate-term average weighted duration, between three-seven years.
- At the time of purchase, no single fixed income issuer shall exceed 2% of the total market value of the Portfolio, with the exception of U.S. Treasury or Agency obligations.
- The direct high-yield portion shall constitute no more than 10% of the total market value of the Portfolio.
- Hedged fixed income positions shall constitute no more than 10% of the total market value of the Portfolio.

#### **Equity & Growth Assets**

- The domestic equity investments are expected to be diversified at all times by size, industry, sector, and style (Large Cap, Mid Cap, and Small Cap).
- At the time of purchase, no individual equity security shall exceed 2% of the total market value of the Portfolio.
- ~~The international equity investments (including emerging markets) shall constitute no more than 20% of the total market value of the Portfolio~~
- The real estate investments shall be captured through the use of diversified mutual funds or ETFs investing in REITs; and shall constitute no more than 15% of the total market value of the Portfolio.
- The commodities investments shall be captured through the use of diversified mutual funds or ETFs; and shall constitute no more than 10% of the total market value of the Portfolio.
- Hedged equity positions shall constitute no more than 10% of the total market value of the Portfolio

#### **Permitted Asset Classes and Security Types**

##### Fixed Income & Cash Equivalent Investments:

- Domestic Certificates of Deposit (rated A-1/P-1 or better)
- Domestic Commercial Paper (rated A-1/P-1 or better)

- Floating Rate Notes
- Money Market Mutual Funds
- U.S. Treasury Bonds, Bills and Notes
- U.S. Agency (and Instrumentality) Discount Notes, Notes, and Bonds
- Treasury Inflation-Protected Securities (TIPS)
- Municipal Bonds and Notes
- Corporate Bonds
- Mortgage-Backed Bonds (MBS)
- Asset-Backed Bonds (ABS)
- High-Yield Bonds (rated B-/B3 or better)
- Dollar denominated Foreign Bonds and Notes
- Bond Mutual Funds

Equity Investments:

- Common & Preferred Stocks
- American Depository Receipts (ADRs)
- Domestic and International Equity Mutual Funds (Open and Closed)
- Emerging Market Equity Funds or Exchange Traded Funds (ETFs)

Alternative Investments:

- Commodities Mutual Funds or Exchange Traded Notes (ETNs)
- REIT Investment or Pooled Strategy or Fund of REITs
- Registered Hedge Funds or Hedge Fund of Funds

**Prohibited Asset Classes and Transactions**

The Investment Manager is prohibited from purchasing or holding any of the following types of investments:

- Partnerships unless investing in Master Limited Partnerships invested in a mutual fund and limited in scope and allocation of Portfolio based on asset class limitations of table above
- Letter stock and other unregistered securities; physical commodities or other commodity contracts; and short sales or margin transactions
- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor
- Investments for the purpose of exercising control of management
- Direct or indirect exposure to cryptocurrencies
- Leveraged securities, other than registered Hedged Equity and Hedged Fixed Income positions

**Duties and Responsibilities**

- 1) CITY OF CUPERTINO AUDIT COMMITTEE
  - a) Establish, approve, and maintain investment objectives, guidelines, and policies (including this Policy).

- b) Appoint Investment Managers who can be reasonably expected to adhere to the investment guidelines and meet the investment objectives as established.
  - c) Monitor the investment performance of the Portfolio and compare actual investment performance relative to an appropriate benchmark index given the stated investment guidelines and objectives set forth in this Policy.
  - d) Conduct a formal review of the Portfolio's asset allocation, investment structure and performance annually or more frequently as the need arises.
  - e) Periodically review the Portfolio performance against objectives.
- 2) CITY OF CUPERTINO CITY COUNCIL
- a) Adopt the Policy by resolution of the City Council on an annual basis.
- 3) PORTFOLIO MANAGER
- The Portfolio Manager will be responsible for carrying out the activities related to the Portfolio in accordance with the Policy including:
- a) Manage the day-to-day investment of Portfolio assets in accordance with the Policy guidelines and objectives included herein.
  - b) Exercise full investment discretion and prudence in the selection and diversification of investments.
  - c) Promptly bring to the attention of the City Treasurer or designee any investment that is subsequently downgraded and fails to meet the quality guidelines, along with a recommendation of retention or disposal.
  - d) Provide on a quarterly basis the following investment reporting:
    - (i) Year-to-date rate of return
    - (ii) Annualized one, three, five, etc. rates of return
  - e) Provide annually to the City's Audit Committee a commentary and analysis of investment performance to include an evaluation of the current and future investment environment and potential impact of the investment environment on achievement of investment objectives.

### **Investment Policy Statement Review**

The City's Audit Committee will review and the Cupertino City Council will adopt this Investment Policy Statement at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Policy will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Policy.

If at any time the Portfolio Manager finds the above guidelines too restrictive or possibly injurious to investment returns, they should communicate that information immediately to the City's Audit Committee.

City Manager's signature: \_\_\_\_\_

Date: \_\_\_\_\_

Director of Administrative Services' signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Revisions: 6.5.2018, 11.19.2019, 11.17.2020, 12.7.2021, 12.06.2022, 12.05.2023, 12.03.2024**