# FELRA AND UFCW HEALTH AND WELFARE FUND

STATEMENT OF INVESTMENT POLICY

## I. INTRODUCTION

The FELRA and UFCW Health and Welfare Fund (the "Fund") is comprised of four accounts (Health & Welfare, Severance, Scholarship and Legal) and is intended to provide welfare benefits to participants in accordance with the benefit structure established by the Fund's Trustees. The Fund is governed by the terms of its governing Fund documents, the Employee Retirement Income Security Act of 1974, as amended ("ERISA) and other applicable laws. The investments of the Fund will be made for the exclusive benefit of Fund participants and beneficiaries.

This policy statement is issued for the guidance of fiduciaries, including the Fund's Trustees and investment managers, in the course of investing the assets of the Fund. This policy statement may be amended by the Trustees both upon their own initiative and upon consideration of the advice and recommendations of the Investment Managers and Fund professionals. Proposed modifications should be documented in writing to the Trustees.

## II. STATEMENT OF GOALS OF THE FUND

This statement of investment goals and objectives is set forth in keeping with fiduciary requirements under existing federal laws. This statement's purpose is to express the Trustees' position regarding the asset mix of the Fund, set forth an appropriate set of goals and objectives for the Fund's assets, and define guidelines within which the Investment Managers may formulate and execute their investment decisions. In general, the goals of the Fund are as follows:

A. Return, as used herein, includes income plus realized and unrealized gains and losses. In addition, assets of the Fund shall be invested to ensure that principal is preserved and enhanced over time, both in real and nominal terms.

B. Achieve a maximum rate of return that allows the Fund to meet its current and future obligations while only accepting a rate of risk commensurate with the Trustees' objectives. Total return for the Fund shall be regularly compared to an appropriate peer universe.

C. Total portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared with other peer universes. Risk-adjusted returns for the Fund and for individual managers are expected to consistently rank in the top half of comparable funds or managers, respectively.

D. Minimize the need to liquidate long-term investments under adverse circumstances.

In addition to the goals of the overall Fund, the goals for each account are as follows:

1. *Health and Welfare* - Achieve a maximum rate of return to enhance principal over the long term in order to meet the rising costs of health care while maintaining ample liquid assets to meet the liquidity demands of its underlying liability structure, thereby minimizing the need to liquidate long-term investments under adverse circumstances. Total return shall be regularly compared to an appropriate peer universe.

2. *Severance* - Achieve a maximum rate of return that allows the account to meet its current and future obligations. Assets of the account shall be invested to preserve and enhance capital over the long term in both real and nominal terms while maintaining sufficient liquidity to meet required payments. Total return shall be regularly compared to an appropriate peer universe.

3. *Scholarship* - Achieve a maximum rate of return that allows the account to preserve and enhance principal over the long term, with an emphasis towards enhancing principal in both real and nominal terms. The Trustees for the Scholarship Fund have determined, with assistance from the Investment Consultant, that the amount of dollars available for scholarships each year will be based on 5% of the average of the account's year-end market value from the last three years, rounded to the nearest thousand. Total return shall be regularly compared to an appropriate peer universe.

4. *Legal* - Achieve an appropriate level of liquidity to meet the cash needs of the account. Assets should be invested to assure appropriate liquidity and, secondarily, earning a rate of return commensurate with the liquidity and safety required in both real and nominal terms. Total return shall be regularly compared to an appropriate peer universe.

Performance of the Fund will be evaluated on a regular basis. Consideration will be given to the degree to which performance results meet the goals and objectives as herewith set forth. Normally, results are evaluated over a three to five year time horizon, but shorter-term results will be regularly reviewed and earlier action taken if in the best interest of the Fund.

## III. ASSET ALLOCATION POLICY

In general, the Fund's policy with respect to asset allocation is to maintain a dynamic and optimal allocation, which, based upon a set of planning assumptions and projections of future Fund cash flows that establish the foundation for all the projections performed in the Fund's annual financial valuations, maximizes the probability that the Fund's objectives are met. The planning assumptions refer to the long-term return outlook, annual standard deviation, and co-variance of each asset class.

The strategy to be used in reviewing and maintaining this Investment Policy is to perform annual financial valuations that combine and integrate actuarial and investment aspects of the Fund, and that determine each year the Fund's position with respect to the Fund's goals and objectives. When new asset classes are being introduced or evaluated, one of the primary factors that will be considered will be whether the Fund's position will or will not be improved as a result of adding that asset class.

All assets shall be invested by the Investment Managers pursuant to the guidelines and objectives set forth in this policy. The most recent target allocations for the accounts' assets are shown in Appendix A.

## IV. ROLE OF TRUSTEES

The Trustees shall review the total investment program in consultation with the Investment Consultant and the Investment Managers. The Trustees shall approve the investment policy and provide overall direction to the administrative staff in the execution of the investment policy. The Trustees, with the assistance of the Investment Consultant, are responsible for evaluating, hiring, and terminating investment managers and custodian banks. The Trustees will meet from time to time to review Fund compliance, or other matters brought before the Trustees, at the discretion of the Trustees.

## V. ROLE OF INVESTMENT CONSULTANT

In addition to the duties described in any engagement agreement between the Fund and the Investment Consultant, the Investment Consultant assists the Trustees in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long term asset allocation and the appropriate mix of investment manager styles and strategies. The Investment Consultant also provides assistance in identifying and selecting qualified investment managers and custodian banks. The Investment Consultant calculates and evaluates investment performance and provides timely information, written and/or oral, on investment strategies, instruments, investment managers and other related issues, as requested by the Trustees.

## VI. ROLE OF INVESTMENT MANAGERS

All Investment Managers will invest Fund assets in accordance with this Investment Policy and their judgments concerning relative investment values. In particular, the Investment Managers will be accorded full discretion, within the Policy limits and guidelines applicable to them and within the parameters of applicable federal law to: (A) select individual securities; (B) make periodic adjustments as to the proportions of securities and cash equivalents, as applicable; (C) determine the timing of transactions; and (D) diversify Fund assets. Each Investment Manager shall acknowledge in writing that it is a fiduciary with respect to the Fund.

The Trustees may change the assets allocated to the Investment Managers as they, in their sole discretion, determine is appropriate from time to time. Further, although it is the goal of the Trustees to avoid the need to liquidate long-term investments, they may do so as they, in their discretion, deem necessary.

The performance of the Fund and the Investment Managers shall be evaluated on a regular basis by the Investment Consultant. In addition, the Investment Consultant shall monitor the Fund's Investment Managers' compliance with this Investment Policy, including the Derivative Policy

Statement attached as Appendix B. The Investment Consultant shall notify the Board immediately in the event that the Investment Consultant becomes aware, or has reason to be aware, that an Investment Manager has deviated from these guidelines.

Subject to the guidelines stated herein, the Investment Managers shall have full discretion in investment decisions. The Investment Managers shall be guided by the Fund's general guidelines and by the specific guidelines applicable to them, as outlined in Appendix C.

## VII. GENERAL INVESTMENT GUIDELINES

The guidelines set forth in this section apply to all Investment Managers.

A. For the purpose of this Policy, a market cycle is defined to be a three to five year period.

B. The Investment Managers are prohibited from investing in any investments in violation of the prohibited transaction provisions of ERISA.

C. Proxies. Pursuant to its Agreement with the Fund, responsibility for the exercise of ownership rights including the right to vote proxies is delegated to Marco Consulting Group, which is expected to vote all proxies in accordance with applicable law and the fiduciary responsibility provisions of ERISA. To enable the Trustees to monitor proxy voting, the Investment Managers and Custodial Bank shall submit to Marco any proxies for the Fund, on a monthly basis.

D. Commingled Funds. The Trustees, in recognition of the benefits of commingled funds as investment vehicles (e.g., the ability to diversify more extensively than in a small, direct investment account and the lower costs that can be associated with these funds) may, from time to time, elect to invest in such funds. The Board recognizes that the practices of such funds will be in accordance with the funds' prospectus or investment guidelines. However, the practices of such funds as identified in the funds' prospectus or investment guidelines shall be consistent with this Policy. The Investment Consultant shall monitor the holdings of such funds to determine whether they are consistent with this Policy. In making this determination, the Investment Consultant shall be entitled to rely upon the quarterly report it receives from the commingled funds without reviewing the actual holdings of such commingled funds. If the quarterly report does not provide sufficient detail for the Investment Consultant to be able to make such a determination, the Investment Consultant shall be responsible for obtaining such additional information from the Investment Manager.

E. Best Execution. Investment Managers shall execute portfolio transactions on a "best execution" basis. In determining the total cost of the execution of transactions, both execution price and commission shall be considered. Arrangements to direct commissions shall only be implemented by specific authorization of the Trustees.

F. Unless explicitly permitted under its Objectives and Guidelines, all Investment Managers are prohibited from investing in short or leveraged positions.

G. Return objectives are expected to be achieved without assuming undue risk. Each Investment Manager's risk, as measured by the standard deviation of returns, and the risk-adjusted return will be compared to that of an appropriate universe of Investment Managers.

H. For fixed income Investment Managers, the diversification of securities by maturity, quality, sector, coupon and, where appropriate, geography is the responsibility of the Investment Manager. For equity Investment Managers, the diversification of securities by sector, industry, and, where appropriate, geography is the responsibility of the Investment Manager.

I. If the Investment Manager becomes aware, or has reason to be aware, that it has deviated from these guidelines or plans to invest in securities that are prohibited under the provisions of this Investment Policy, the Investment Manager shall so notify the Trustees in writing.

J. Cash Equivalents and Short Term Investment Funds: Each Investment Manager is expected to be fully invested; however, the Trustees understand that some liquidity of any portfolio is necessary to facilitate trading and there are no explicit restrictions on the holding of cash equivalents. A short-term investment fund ("STIF"), offered by the Plan's custodian, is an allowed investment. Any such STIF will be used to invest cash not invested by the investment managers, employer contributions, and cash held for Plan benefit or expense payments. The Plan's custodian is responsible for sweeping all manager accounts daily so that no cash is left uninvested each night. The investment managers are responsible for selecting a STIF from the vehicles offered by the Plan's custodian that the Manager determines to be low risk and appropriate as a daily cash sweep vehicle. Low risk shall mean the maintaining of a $1 net asset value per share at all times.

In addition to the Plan custodian's STIF, investment managers may also invest other cash equivalents, provided they are rated A1/P1.

K. Ineligible Investments. Unless specifically approved by the Trustees, the following securities, strategies and investments are ineligible for inclusion within this Fund:

1. Options, futures, and other derivative instruments, except as allowed in specific manager guidelines in Appendix C and subject to the Derivative Policy outlined in Appendix B.

2. Privately-placed debt, except marketable securities issued under Rule 144A.

3. Lettered, legend or other so-called restricted stock.

4. Commodities.

5. Merger arbitrage.

6. Straight preferred stocks and non-taxable municipal securities should not normally be held unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume.

7. Securities of a company in operation fewer than five continuous years may only represent up to one percent (1%) of the market value of an investment manager's portfolio, unless otherwise noted in Appendix C. (This restriction is not intended to prohibit investment in any company recently formed as a result of a corporate "spin-off" or similar transaction, but with a five-year or longer history within the former parent.)

8. Direct investments in private placements, real estate, oil and gas and venture capital, or non-publicly traded funds comprised thereof.

9. Any transaction that would result in Unrelated Business Taxable Income ("UBTI").

## VIII. REPORTS AND COMMUNICATIONS

Each Investment Manager will immediately notify the Board of Trustees and the Investment Consultant of any litigation and enforcement action taken against the Investment Manager or its officers, material changes in ownership, organizational structure, investment process, financial condition, staffing and management of the Investment Manager, the assets under management for the total firm or for the product managed on behalf of the Fund.

In addition to any reports required by the Investment Management Agreement, on a quarterly basis, each Investment Manager shall submit written reports to the Investment Consultant. These reports will include:

1. Performance Review, including but not limited to the total portfolio and asset class returns for the last calendar quarter, year-to-date, last year, and since inception versus the designated benchmark, on both a gross and net of fee basis.

2. Attribution analysis that identifies returns due to allocation and selection decisions, as appropriate.

3. Portfolio characteristics relative to the benchmark.

4. Bond quality and maturity schedules, as applicable.

5. A statement indicating compliance with these guidelines during the last quarter.

6. In addition, the Investment Managers shall report annually on portfolio holdings, including present book value and current market value, listing of individual securities by sector, asset class and country, as appropriate, and commissions directed during the past year.

The Investment Managers shall produce, upon written request, documentation in support of their buy, sell, and hold decisions.

## IX. POLICY REVIEW

The Board of Trustees shall review this Investment Policy from time to time in consultation with the Investment Consultant and Investment Managers. Revisions to the goals and objectives of this Investment Policy or any other substantive revisions to it including, but not limited to, investment guidelines may be made only in writing by the Trustees. However, the Investment Consultant and the Investment Managers are expected to notify the Trustees when, in their judgment, they believe it is appropriate to modify the Policy.

**IN WITNESS WHEREOF** the undersigned do hereunto set their hands.

**CHAIRMAN**

C. James Fowthero

**SECRETARY**

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## APPENDIX A

### Asset Allocation
### Effective: TBD

In order to have a reasonable probability of consistently achieving the Fund's return objectives, the Trustees have adopted the asset allocation policies for each account outlined below.

If any asset class weighting is outside its respective permissible range at the end of any calendar quarter, the Investment Consultant will advise the Trustees at the next Trustees meeting.

**Health and Welfare Account**

| Asset Class | Target Number of Months Reserves | Target Benchmark |
|---|---|---|
| Total | 3.00 | |
| Cash | 1.00 | |
| Fixed - Domestic Core | 0.50 | Lehman Aggregate |
| GAA | 0.50 | 60% MSCI World/40% Citigroup WGBI |
| Equity | 0.50 | |
| Domestic Large Cap | 0.26 | S&P 500 |
| Domestic Small/Mid Cap | 0.08 | Russell 2500 |
| International | 0.16 | EAFE after Tax |
| HFOF | 0.50 | T-Bills + 3% |

**Severance Account**

| Asset Class | Target % | Permissable Ranges | Target Benchmark |
|---|---|---|---|
| Equity | 47% | 40%-60% | |
| Domestic Large Cap | 25% | 20%-30% | S&P 500 |
| Domestic Small/Mid Cap | 8% | 6%-10% | Russell 2500 |
| International Established | 14% | 11%-17% | EAFE after Tax |
| Fixed | 19% | 17%-25% | |
| Domestic Core | 13% | 9%-17% | Lehman Aggregate |
| High Yield | 6% | 4%-8% | LB High Yield |
| Real Estate | 15% | 12%-18% | NCREIF Property |
| HFOF | 14% | 12%-16% | T-Bills + 3% |
| GAA | 5% | 3%-7% | 60% MSCI World/40% Citigroup WGBI |
| Cash | 0% | 0%-27% | |

**Scholarship Account**

| Asset Class | Target % | Permissable Ranges | Target Benchmark |
|---|---|---|---|
| Equity | 60% | 40%-80% | |
| Domestic Large Cap | 35% | 25%-45% | S&P 500 |
| Domestic Small/Mid Cap | 9% | 4%-14% | Russell 2500 |
| International Established | 16% | 11%-21% | EAFE after Tax |
| Fixed | 20% | 13%-27% | |
| Domestic Core | 15% | 10%-20% | Lehman Aggregate |
| High Yield | 5% | 3%-7% | LB High Yield |
| Real Estate | 10% | 5%-15% | NCREIF Property |
| HFOF | 10% | 5%-15% | T-Bills + 3% |
| Cash | 0% | 0%-27% | |

**Legal Account**

| Asset Class | Target % | Permissable Ranges | Target Benchmark |
|---|---|---|---|
| Equity | -- | -- | |
| Domestic Large Cap | -- | -- | S&P 500 |
| Domestic Small/Mid Cap | -- | -- | Russell 2500 |
| International Established | -- | -- | EAFE after Tax |
| Fixed | 20% | 10%-30% | |
| Domestic Core | 20% | 10%-30% | Lehman Aggregate |
| High Yield | -- | -- | LB High Yield |
| Cash | 80% | 70%-90% | |

## ASSET ALLOCATION FLUCTUATIONS DURING A PLAN YEAR

At any point in time, the actual asset allocation will differ from the optimal based on developing plan experience and conditions. This may dictate the need for rebalancing. However, frequent rebalancing during a year may be inefficient and costly.

Therefore, it is the intent of the Trustees to annually review the optimal allocation and the need to rebalance, based on emerging liabilities, cash flows, investment performance, plus possible changes in the Trustee goals and objectives. Nevertheless, there will likely be circumstances from time to time, where interim rebalancing is desirable, based on recommendations from the Investment Consultant. In such cases, the Trustees will consider the merits of interim rebalancing compared to delaying the action until the annual review.

## Health & Welfare Reserve Structure

The Heath & Welfare (H&W) account is unique in that the rebalancing needs of this account will depend on the replenishment needs of the Fund's targeted three-month reserve. Asset class allocation is determined by the number of months of benefit reserves, rather than by percentage of assets. This is designed to ensure that cash, rather than the more long-term components of the targeted reserve, is used for the payment of expenses.

The targeted allocation of the H&W targeted reserve is shown above. The non-cash assets (fixed income, equity, GAA and hedge funds) have a combined target reserve level of 2.00 months. The expectation is that the assets needed to meet this 2.00-month reserve level will remain invested for the long-term and all assets in excess of this 2.00-month target will be in cash.

The targeted level of assets for the H&W account is three months of reserves, but the actual amount of assets will fluctuate based on the experience of the Fund. In the event that the amount of assets exceeds the targeted three months of reserves, the excess assets will be invested in cash. In all cases, the Trustees may adjust the actual current allocation of the H&W account components based on the projected liquidity needs and current assets in the account.

The goal of this reserve structure is that non-cash assets will remain invested for the long-term at the targeted reserve levels. To provide stability, the cash component of the portfolio will serve as a buffer, as most of the changes in the assets are projected to be in the cash assets. The Investment Consultant will continually monitor the Fund's actual asset allocations as compared to the targeted allocations, and will discuss with the Fund's Trustees the possibility of rebalancing the assets if, for three consecutive months:

a. The cash account exceeds 1.50 months of benefits, or
b. The cash account is less than 0.75 months of benefits

## APPENDIX B

### Derivatives Policy

Derivative securities are not permitted unless specifically approved by the Trustees in the individual guidelines in Appendix C.

Where appropriate, Investment Managers may be given permission to use derivative securities for the following reasons:

1. *Hedging.* To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the Investment Managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.

2. *Creation of Market Exposures.* Investment Managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the Investment Manager allow for such exposures to be created with the underlying assets themselves.

3. *Management of Country and Asset Allocation Exposure.* Investment Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for these purposes.

By way of amplification, it is noted that the following two uses of derivatives are prohibited:

1. *Leverage.* Derivatives shall not be used to magnify overall portfolio exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used.

2. *Unrelated Speculation.* Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

Each Investment Manager is responsible for managing the investment and counter party-risk associated with derivative investments in accordance with their internal investment policies. The Investment Manager shall report their policies to the Trustees and the Investment Consultant on an annual basis.

Fixed income managers may invest in Collaterized Mortgage Obligations ("CMO") (and other collateralized fixed income securities), where it can be shown that the security is less exposed to interest rate or prepayment risk than the underlying collateral.

Only 10% of the portfolio may be invested in these types of securities where the interest rate or prepayment risk is greater than the underlying collateral. In those cases, the Investment Manager is required to stress-test each derivative instrument to determine the effect of extreme changes (+/-3%) in interest rates on the instrument and to ensure that the resulting risk-return pattern is consistent with the guidelines and investment objectives for that manager. These results shall be shared with the Investment Consultant on a quarterly basis.

Prior to investing in any derivative, the Fund's Investment Managers must have adequate information and risk management systems in place given the nature, size and complexity of their derivatives activities. In addition, the Investment Consultant has advised the Trustees that it has the resources to monitor the derivatives activities of the Investment Managers. The Fund's Investment Consultant has a duty to properly monitor the Fund's investments in derivatives and to determine whether they are appropriately fulfilling their role in the Fund's portfolio. The frequency and degree of the monitoring will depend on the nature of such investments and their role in the Fund's portfolio. Such monitoring will include a quarterly retrospective review of the Investment Manager's compliance with the Investment Policy and this Derivatives Policy for the quarter, but the Investment Consultant will not itself stress test individual portfolios or the derivative security instruments therein. In monitoring the Investment Managers, the Investment Consultant shall be entitled to rely on any written materials provided by the Investment Manager unless the Investment Consultant has good reason to believe that such written materials are not correct or complete.

Notwithstanding the monitoring obligations described herein, the Fund's Investment Consultant shall not be considered a guarantor of any particular derivative's performance.

In the event the Trustees consider electing to invest in a commingled fund, the Fund's Investment Consultant shall obtain, among other things, sufficient information to determine the commingled fund's strategy with respect to use of derivatives in its portfolio, the extent of investment by the fund in derivatives, and such other information as would be appropriate under the circumstances, before recommending to the Trustees that they should elect to invest in a commingled fund.

In addition to the reporting requirements set forth in Section VIII of the Investment Policy, the written reports submitted by each Investment Manager investing in derivatives shall list derivatives held by the Investment Manager during the quarter including the type, the notional value, the intended use of each derivative, and an explanation of any significant pricing discrepancies between the Investment Manager and custodian bank. Any material discrepancies between the Investment Manager and custodian must be reported to the Trustees and Investment Consultant within 30 days of the pricing date of record. In addition, the Investment Manager shall certify that the derivatives were prudent investments for the Fund and the Investment Manager is in full compliance with the Department of Labor's Letter of Guidance and Statement on Derivatives (March 28, 1996).

**Food Employers Labor Relations Association and**
**United Food and Commercial Workers Health and Welfare Fund**

**Statement of Investment Policy**

**Amendment**

Effective May 22, 2013, the Statement of Investment Policy of the Food Employers Labor Relations Association and United Food and Commercial Workers Health and Welfare Fund is amended by deleting Section VII(J) and replacing it with the following:

> J. Cash Equivalents and Short Term Investment Funds: Each Investment Manager is expected to be fully invested; however, the Trustees understand that some liquidity of any portfolio is necessary to facilitate trading and there are no explicit restrictions on the holding of cash equivalents. A short-term investment fund ("STIF"), offered by the Plan's custodian, is an allowed investment. Any such STIF will be used to invest cash not invested by the investment managers, employer contributions, and cash held for Plan benefit or expense payments. The Plan's custodian is responsible for sweeping all manager accounts daily so that no cash is left uninvested each night. Each Investment Manager is responsible for selecting a STIF for the uninvested Plan assets over which it has discretion, from the vehicles offered by the Plan's custodian that the Investment Manager determines to be low risk and appropriate as a daily cash sweep vehicle. The Board of Trustees is responsible for selecting a STIF for the uninvested Plan assets not under the discretionary control of any Investment Manager, from the vehicles offered by the Plan's custodian that the Trustees, in consultation with the Fund's investment consultant, determine to be low risk and appropriate as a daily cash sweep vehicle. Low risk shall mean the maintaining of a $1 net asset value per share at all times.
>
> In addition to the Plan custodian's STIF, Investment Managers and the Board of Trustees also may invest in other cash equivalents, provided they are rated A1/P1.
>
> It is expected that the annual return of the STIF portfolio will exceed the total return of the 91-day T-Bill.

**Food Employers Labor Relations Association and**
**United Food and Commercial Workers Health and Welfare Fund**

Date: 8/27/13 By: ______________
Union Trustee

Date: 8.27.13 By: ______________
Employer Trustee

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