

**CHARTER TOWNSHIP OF HIGHLAND  
OAKLAND COUNTY, MICHIGAN  
OPEB INVESTMENT POLICY STATEMENT  
JULY 1, 2008**

**AMENDED DECEMBER 2014, SEPTEMBER 2018**

**1.0 INTRODUCTION:**

This Investment Policy Statement (“IPS”) is intended to document discussions between the Charter Township of Highland in Oakland County, Michigan (“Client”) and Larry Rosenberg and David Fernquist (“Advisor”) concerning management of Client’s account held with LPL Financial. As required by Charter Township of Highland Resolution #08-01: Establishing the Public Employee Health Care Fund, the designated investment fiduciary of this account shall be the Treasurer of the Charter Township of Highland (“Client Fiduciary”). The IPS does not modify or amend the contract between LPL Financial, Advisor and Client, which is set forth in the documents signed and received by Client in connection with opening this account.

As set forth below, Client and Advisor have agreed that the investment objective for this account is “Income with Moderate Growth .” Client Fiduciary and Advisor will review the selection of this investment objective at least annually, to determine whether it continues to be consistent with Client’s investment objectives for this account.

Client acknowledges that there is a distinction between an investment objective and a guaranteed investment result, and that investment results cannot be guaranteed. Selection of an investment objective requires balancing of a client’s personal capacity to accept the risks of investment over an anticipated time horizon with the historical and reasonably anticipated future risks of investment in various asset classes, which may or may not be replicated in the future.

Ultimately, since the capacity to accept varying levels of risk is different for every client, it is always Client’s decision to maintain, increase or reduce the investment risk (and thus the investment objective) of this account, and the Client Fiduciary may instruct that changes be effected at any time. Normally, however, evaluation of whether the overall risk level of the account continues to be appropriate for Client’s investment objectives will occur on an annual basis.

**It is understood that investment results cannot be guaranteed, and that past performance of any security (including individual stocks and mutual funds), or any portfolio of securities is not indicative of future performance.**

**Client Fiduciary Initials:** \_\_\_\_\_

## **2.0 Time Horizon for Investment:**

One of the most important considerations for selection of an investment objective and the selection of investments for an account is the time horizon for the account. Typically, it is important to attempt to estimate at least two periods of time: the period of time that an investor anticipates a greater focus on accumulating assets (during which income requirements are expected to be satisfied from other sources), as well as the period of time that an investor anticipates satisfying some portion of income requirements from investments. These periods are specific to each client, and can vary significantly. In addition, these periods can change based on unforeseen circumstances or changes in financial condition. If such events occur, Client will notify Advisor promptly.

For purposes of this IPS, Client anticipates annual reimbursements to Highland Township for OPEB expenditures. As income is funded from the account, Client will review with Advisor whether the investment objective for this account should be changed.

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## **3.0 Risks of Investment:**

Understanding the risks of investment and deciding what amount of risk an investor is prepared to accept also is specific to each client, and also can vary significantly. Every person has distinct attitudes about risk in many areas of their lives, and investment is no different. Evaluation of an acceptable risk level necessarily involves balancing the possibilities of “worst case” results against results that may be achieved if historical results of investment in various asset classes are replicated in the future.

Historically, risk has existed over the full range of the investment spectrum. For example, if historical rates of inflation are replicated in the future, the “worst case” long-term risk of investing solely in cash (a very conservative strategy) would be that growth in the value of the investments would not keep pace with inflation and purchasing power would be significantly reduced, even though the initial investment capital would be preserved (a simple example is that, 30 years ago, an entry level car could be purchased for under \$3,000.00, which would be a modest down payment today). By way of contrast, investment in highly speculative securities in new, unproven businesses or industries (a very aggressive strategy) historically has resulted in both very high returns for some investors and significant or total losses of investment (the “worst case”) for others.

Speaking generally, and in the context of long term investment, investment in securities that historically have achieved higher rates of return, such as growth-oriented equity securities, has historically increased the likelihood that growth in the value of the investments would occur, but this cannot be guaranteed over any period of time.

**Client Fiduciary Initials:** \_\_\_\_\_

#### **4.0 Investment Objectives:**

Based on discussions between Client and Advisor concerning Client's financial circumstances, time horizon, and risk tolerance, Client has selected Income with Moderate Growth as the investment objective for this account. Growth (and potentially, income in the form of dividends) is expected to be derived from growth-oriented equity securities that appear to have the potential to experience appreciation in value. Income (and, potentially, growth from any appreciation in value) is expected to be derived from fixed income securities that are expected to pay dividends and/or interest. These are broad and not mutually exclusive categories, since income can be achieved from growth securities, and growth can be achieved from income securities.

Speaking generally, this is a more conservative investment objective than "Growth with Income" (which would involve a greater allocation to growth oriented equity securities that historically have experienced larger short-term fluctuations in value and larger long-term increases in value), Income with Moderate Growth involves a greater allocation to fixed income securities that are expected to pay dividends or interest, which historically have experienced less short-term fluctuation in value and less long-term appreciation in value.

Although exact percentages are likely to vary over time, the investments listed in Section 5.0 Investment Guidelines, conform to Michigan Public Employee Retirement System Investment Act 314 of 1965 as amended by PA 347 of 2012. The anticipated allocation in the account will fall within the following asset classes within the ranges indicated:

- |                           |           |
|---------------------------|-----------|
| a. US Equities            | 15% - 55% |
| b. Non-US Equities        | 0% - 15%  |
| c. Real Estate Trusts     | 0% - 20%  |
| d. Alternative Investment | 0% - 20%  |
| e. Fixed Income           | 30% - 65% |
| f. Cash and Equivalent    | 0% - 60%  |

**Client Fiduciary Initials:** \_\_\_\_\_

#### **5.0 Investment Guidelines:**

Based on discussions between Client and Advisor, Client has instructed that the following investments may be purchased in the account.

- Individual Debt Instruments issued by approved government agencies
- Corporate Debt Instruments
- Open and Closed-End Publicly Traded Mutual Funds  
(approved by LPL Financial's Research Department)
- Exchange Traded Funds (ETF's)
- Individual Equity Securities

- Money Market Funds
- Publicly and Non-publicly traded Real Estate Investment Trusts (REITs)
- Certificates of Deposit
- Structured Products

Speaking generally, concentration of an account in a particular security or industry sector can increase the risk that unforeseen events could negatively affect the particular security or industry sector, which would negatively affect the account's performance.

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### **6.0 Benchmarks and Expected Real Rates of Return:**

Based on discussions between Client and Advisor, Client has agreed that comparing the performance of the account to generally accepted industry "benchmarks" can be a useful exercise. Accordingly, the following benchmarks may be utilized for purposes of account monitoring and review:

- Large Cap Stocks: S&P 500, Russell 1000 Index
- Mid Cap Stocks: Russell Midcap Index
- Small Cap Stocks: Russell 2000 Index
- REITS: Dow Jones Wilshire REIT Index, NCREIF Index
- Global Stocks: MSCI-EAFE Index
- US Bonds: Lehman Brother Aggregate Bond Index
- Global Bonds: Solomon Brothers World Bond Index

In addition to market index benchmarks, account performance will also be measured against inflation with an overall long term goal that the account performs above the inflation index by at least 3%. The inflation index is defined as the rate used by Oakland County, Michigan for determining property tax equalization.

Expected Real Rate of Return is the expected returns net of investment expense and inflation. The total long-term expected rate of return is calculated by weighting the expected future real rates of return by the target asset allocation percentage. For the year ended December 31, 2017, 5.5% was the expected rate of return and 3.0% as the real rate of return (after deducting 2.5% for inflation). The projected long-term real rate of return will be annually reviewed for alignment with market fluctuations and overall goals of the Client.

Advisor will also supply the annual money-weighted rate of return to the Client upon request. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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**7.0 Account Monitoring:**

Client will notify Advisor of any changes in PA 347 to ensure Advisor maintains compliance with such Act. Advisor will also monitor the account investments for overall account performance. Because the benefits of diversification historically have been achieved over the long term, short term market fluctuation will not necessarily result in a recommendation by Advisor to switch the investments or to consider changing the investment objective. On a semi-annual basis, Advisor will provide an informal but comprehensive review to the Client Fiduciary on the performance of the account. On at least an annual basis, Advisor will evaluate whether the account should be rebalanced to bring the relative percentages closer to the diversification allocation discussed above.

Client Fiduciary also will monitor the account, and will receive regular periodic statements of the account, as well as confirmations of every transaction in the account, to assist with such monitoring. Client Fiduciary acknowledges that it is his/her responsibility to review transaction confirmations and periodic account statements upon receipt, and to promptly notify Advisor of any questions or concerns arising from such review. Client Fiduciary will notify Advisor of any changes to financial circumstances, time horizon, or risk tolerance.

**Client Fiduciary Initials:** \_\_\_\_\_

**8.0 Acknowledgement**

By (his/her) signature below, Client acknowledges receipt of this IPS and discussion of its contents with Advisor.

\_\_\_\_\_  
**Judith A. Cooper, Trustee**

\_\_\_\_\_  
**Date**

**Charter Township of Highland**

**CERTIFICATION**

I hereby certify that I have received the investment policy of the Charter Township of Highland, have personally read the Investment Policy, and agree to comply with the terms of the Investment Policy regarding the buying or selling of securities. We also pledge to exercise due diligence in informing you of all foreseeable risks associated with financial transactions conducted with our firm.

LPL Financial  
31731 Northwestern Hwy., Suite 151W

Farmington Hills, MI 48334

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Signature

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Date

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Authorized Official & Title