

CITY OF PHOENIX

POST EMPLOYMENT HEALTH PLAN
(PEHP)

INVESTMENT POLICY STATEMENT

Updated September 2025

Approved by PEHP Board September 11, 2025

Prepared by Fiduciary Consulting Group

**CITY OF PHOENIX
POST EMPLOYMENT HEALTH PLAN (PEHP)
INVESTMENT POLICY STATEMENT**

TABLE OF CONTENTS

Section	Page
INTRODUCTION AND PURPOSE	3
SUMMARY OF RESPONSIBILITIES	3
GENERAL COMPLIANCE	5
GENERAL INVESTMENT POLICY, OBJECTIVES AND STANDARDS	5
INVESTMENT OPTIONS	6
INVESTMENT OPTION REVIEW, GUIDELINES AND MONITORING	9
INVESTMENT OPTION WATCH GUIDELINES	11

INTRODUCTION AND PURPOSE

This statement is set forth to provide an outline of the investment policies, guidelines, and objectives for the administration of the City of Phoenix Post Employment Health Plan (PEHP) (hereinafter “Plan”) as it relates to the investment options in the Plan. The Plan is available for employees who were eligible to retire in more than 15 years of City service as of August 1, 2007, and who have a payroll deduction for health insurance premiums from the employee’s paycheck; or who were hired August 1, 2007, or later and have a payroll deduction for health insurance premiums from the employee’s paycheck. The Plan is intended to facilitate the accumulation of assets by participants on a tax-deferred basis for use upon separation of service from the City for qualified medical expenses in accordance with the Internal Revenue Code and other governing rules and regulations. Contributions are based solely on employer pre-tax contributions to each participant’s account, plus or minus any income, expenses, gains/losses, and forfeitures.

The City of Phoenix has adopted the PEHP Trust (hereinafter the “Trust”), which was established by Nationwide Retirement Solutions (hereinafter “NRS”) and is a Voluntary Employees’ Beneficiaries Association (VEBA) pursuant to Code Section 501(c) 9. It is participant-directed, and participants select from among the available investment options that are made available by the City of Phoenix Post Employment Health Plan Board (hereinafter the “Board” or the “PEHP Board”).

This Investment Policy Statement is intended to assist the fiduciaries of the Plan in making investment-related decisions in a prudent manner. It outlines the underlying philosophies and processes for the selection, monitoring and evaluation of the investment options and investment providers utilized by the Plan. This Investment Policy Statement will be reviewed at least annually, and it can be revised at any time, with the approval of the PEHP Board, to reflect changes in the capital markets, plan objectives, or other factors relevant to the Plan.

SUMMARY OF RESPONSIBILITIES

Plan Sponsor – The City of Phoenix is the Plan Sponsor. The Plan Sponsor’s responsibilities include but are not limited to:

- Adopting and amending the Trust and Plan Documents;
- Approving Plan services contracts; and
- Designating other fiduciaries of the Plan

Board – As provided in Chapter 2, Article XXXIX of the City of Phoenix City Code, the Post Employment Health Plan (PEHP) Board (hereinafter “Board”) has responsibility for the operation, administration, and monitoring of the Plan in accordance with the terms of the Plan Documents and written Plan policies.

The Board’s responsibilities also include but are not limited to the following:

- Monitoring and evaluating all investment providers and managers in accordance with the guidelines and benchmarks established within this document and related investment manager guidelines and consistent with all applicable laws;

- Monitoring Plan costs which are charged to Plan assets and/or paid by Plan participants, including but not limited to investment management fees, custodial fees, and fees paid to other plan service providers from Plan and/or participant assets; and
- Ensuring that participants receive information through written and electronic media and through in-person educational opportunities addressing investment principals and risk, how to make informed investment selections, and other factors that will enhance the future benefits received from the Plan.

Investment Consultant – The Board may engage an independent investment consultant (hereinafter “Consultant”) to assist in carrying out the duties and responsibilities of this Investment Policy Statement. Such Consultant must be registered with the Federal securities regulators pursuant to the Investment Advisors Act of 1940. The Consultant’s role is to provide information and advice to the Board on various investment related issues. The Consultant has no discretionary control or authority over the Plan or its assets. In its role as an advisor to the Board, the Consultant acknowledges a fiduciary role with respect to the investment advice provided to the Board. The services of the Consultant will be set forth in a separate agreement.

Investment Provider – An entity that offers investment option products and manages assets for the Plan. Examples of investment option products offered by an investment provider may include mutual funds, collective investment trust funds, separately managed accounts, and variable annuity contracts.

Investment Manager – The person(s) representing the Investment Provider with the responsibility for implementing an investment option’s investing strategy and managing its portfolio trading activities.

Third Party Administrator – An entity engaged to assist the Plan Sponsor and the Board in regard to the administration of the Plan. This assistance includes Plan enrollment communication; education, including providing general investment information to Plan participants regarding the procedures for making investment choices under the Plan and general investment information regarding each of the investment options offered under the Plan; distribution processing; record keeping; and other administrative functions as prescribed in an agreement entered into between the Plan Sponsor and the Services Provider.

GENERAL COMPLIANCE

The Plan is designed to meet the requirements of Code Section 501(c)9 of the Internal Revenue Code of 1986 (hereinafter “Code”), as amended. Plan participants will be solely responsible for the investment decisions and investment transactions that they make under the Plan as well as for electing the timing and form of distributions according to the terms of the Plan.

It is intended that, at minimum, Plan participants will be provided with the following opportunities made available by the Board:

- A. Investments that provide a reasonable opportunity:
 1. To materially affect the participant’s account’s potential return and degree of risk.

2. To choose from at least three (3) alternatives each of which is diversified and has materially different risk and return characteristics which:
 - a. in aggregate enable the participant to achieve a portfolio with the aggregate risk and return characteristics at any point within the range normally appropriate for the participant; and.
 - b. when combined with the investments in the other alternatives tends to minimize through diversification the overall risk of a participant's portfolio.
- B. To make and/or modify investment decisions at least quarterly.
- C. To receive or have access to the following information, as updated:
 - A description of the investment alternatives available under the Plan, including a general description of the investment objectives, risk and return characteristics, and type and diversification of assets comprising each alternative;
 - Identification of the designated investment providers, investment manager(s), and investment products;
 - A description of any transaction fees or expenses charged to the Plan participant's account and information on costs and fees for an investment product that reduces Plan participant rates of return (expense ratios); and
 - Prospectuses, annual reports, and semi-annual reports on investment products, if available.

GENERAL INVESTMENT POLICY, OBJECTIVES AND STANDARDS

The Plan intends to foster an investment environment that encourages and facilitates participant efforts to supplement other sources of retirement income. Plan participants are solely responsible for their own investment decisions, bear their own risk, and assume responsibility for the results of the investment options they select from those made available by the Board.

The primary investment objective of the Plan is to present participants with a range of investment options that give participants an opportunity to increase the value of their investment assets in a manner consistent with the varying levels of participant risk/reward tolerances and investment decision-making skills. While the Plan cannot meet all plan participant investment preferences and attitudes, the Plan is intended to provide investment options for participants at various levels of investment sophistication and with the varying requirements for risk and return.

A risk/reward structure is basic to investments. Generally, those vehicles offering the greatest return over time also carry the highest risk or volatility of return. The inherent conflict between volatility and long-range asset accumulation can be lessened through diversification among asset categories or classes. To provide participants the opportunity to select risk/reward strategies and to allow for the diversification of Plan assets, the Plan will offer a number of investment alternatives in varying asset categories. These categories will have varying return and volatility characteristics and it is the responsibility of each participant to evaluate the investment options and to select an appropriate mix.

In addition to providing a range of investment options, the Plan seeks to provide investment options that are competitive in terms of performance relative to appropriate investment performance and risk

benchmarks. The performance and risk relationships of the Plan's investment options will be reviewed no less frequently than quarterly.

Investment options should generally be given a full market cycle to achieve stated objectives (market cycles normally occur over 3-5-year time periods). Investment options are expected to meet (in the case of passively managed/indexed options) or exceed their pre-determined benchmark index net of fees. Where peer groups are definable, actively managed investment options are expected to perform within the upper half of a sample of same style peers net of fees.

In addition to net investment performance, the options' risk characteristics will also be reviewed. The risk associated with an investment option generally should be similar to the same-style peer group. Risk-based asset allocation funds are a unique subset of the Plan's range of available investment options. They are designed to invest in other funds based on the option's fixed risk profile. Therefore, the current composition (or asset allocation) of the Plan's asset allocation funds shall be considered when evaluating them relative to the benchmark and peer group constituents.

INVESTMENT OPTIONS

The Plan will assist participants in meeting their long-term investment objectives by providing investment options within the following investment categories which shall comprise the core investment choices:

- Capital Preservation
- Intermediate Term Bond
- U.S. Large-Cap Equity
- U.S. Mid-Cap Equity
- U.S. Small-Cap Equity
- International Equity
- Target Date funds

Investment options and categories may be added or deleted as the Board deems necessary. At least one investment option is expected to be made available in each of the above categories. Specific investment options made available to participants may be either passively or actively managed.

Following are descriptions of each category in the core investment options. The table following each category description contains benchmark indexes and peer groups appropriate for investment options within the category.

CAPITAL PRESERVATION

Objective and Description: Provide high relative current income and a high degree of investment safety without fluctuation of principal. Investors can expect to receive a return that is reflective of the aggregated performance of the underlying investment instruments of the insurance company's general account. An insurance company's general account is typically composed of investment grade bonds, cash, loans, and other investments. The overall weighted credit-quality rating of the insurance company general account shall be investment grade, typically A or higher. The rating must be obtained from at

least one credit rating agency such as Moody, S&P, or Duff & Phelps.

A government money market mutual fund, which invests in high quality, short term fixed income securities issued or guaranteed by the U.S. Treasury, or its instrumentalities may also be made available in this category in addition to or in place of an insurance company general account.

Benchmarks and Peer Groups:

Asset Class	Benchmark Index	Peer Group
Insurance Company General Account	U.S. Treasury 5 Year Constant Maturity Note	U.S. Stable Value
Government Money Market Mutual Fund	90-day U.S. Treasury Bills	U.S. Money Market Taxable

INTERMEDIATE TERM BOND

Objective and Description: Provide capital appreciation and income through a diversified fixed income portfolio. The expected duration for the portfolio will average five (5) years, with the durations of three (3) to seven (7) years possible at times. Average credit quality will be investment grade. The fixed income portfolio will normally be comprised of money market instruments and U.S. Government and Agency bonds, mortgage, and asset-backed securities, and corporate bonds (including convertibles). Foreign holdings may be included, as well as corporate securities less than investment grade.

Benchmarks and Peer Groups:

Asset Class	Benchmark Index	Peer Group
Intermediate Term Bond	Bloomberg U.S. Aggregate Bond	U.S. Intermediate Term Core Bond

U.S. LARGE-CAP EQUITY

Objective and Description: Provide long-term capital appreciation through a diversified common stock portfolio whose average market capitalization may be categorized as Large Cap by an industry standard data provider*. Equities of foreign companies may also be included but would generally not exceed 20% of the portfolio.

Benchmarks and Peer Groups:

Asset Class	Benchmark Index	Peer Group
Large Cap Blend	S&P 500	U.S. Large Blend

U.S. MID-CAP EQUITY

Objective and Description: Provide long-term capital appreciation through a diversified common stock portfolio whose average market capitalization may be categorized as Mid Cap by an industry standard data provider*. Equities of foreign companies may also be included but would generally not exceed 20% of the portfolio.

Benchmarks and Peer Groups:

Asset Class	Benchmark Index	Peer Group
Mid Cap Blend	Custom Mid Cap Index	U.S. Mid Blend

U.S. SMALL-CAP EQUITY

Objective and Description: Provide long-term capital appreciation through a diversified common stock portfolio whose average market capitalization may be categorized as Small Cap by an industry standard data provider*. Equities of foreign companies may also be included but would generally not exceed 20% of the portfolio.

Benchmarks and Peer Groups:

Asset Class	Benchmark Index	Peer Group
Small Cap Blend	Custom Small Cap Index	U.S. Small Blend

*"Industry standard data provider" is defined as a company that aggregates, standardizes, and broadly distributes investment data to industry professionals. Examples currently include Morningstar and Lipper.

INTERNATIONAL EQUITY

Objective and Description: Provide long-term capital appreciation through a diversified portfolio of international equities. Equities of emerging countries may be used at the discretion of the manager but would generally not exceed 30% of the portfolio.

Benchmarks and Peer Groups:

Asset Class	Benchmark	Peer Group
Foreign Large Blend	Custom International Index	U.S. Foreign Large Blend

TARGET DATE FUNDS

Objective and Description: These portfolios are funds of funds designed to be a complete investment portfolio for participants who chose to leave the asset allocation and implementation decisions to investment professionals. Their investment objective is to provide different levels of income and capital appreciation dependent upon an individual participant's risk tolerance and income needs. Target retirement date portfolios are designed to change their risk profile as the participant reaches his or her target retirement date. Portfolios will be well diversified across multiple asset classes generally including both fixed income and equity securities.

Benchmarks and Peer Groups:

Asset Class	Benchmark	Peer Group
Target Retirement Date	Custom Based on Target Retirement Date	US Target Date

INVESTMENT OPTION SELECTION GUIDELINES

Investment options offered to participants will be provided through investment provider(s) accessible on the Third Party Administrator's platform. Before introducing a new investment option, the Board, in consultation with the Consultant and Third Party Administrator, will define the niche to be filled and assess any prospective investment option's performance, quality and risk characteristics. At a minimum, investment options under consideration should satisfy performance and risk considerations under actual, not modeled, conditions and over an appropriate time period. The due diligence process to be followed in selecting an investment provider should include, but not be limited to, an analysis of the following factors:

- Length of investment performance track record and consistency of returns achieved with risks taken;
- Relative investment performance as compared to predetermined benchmarks and peer groups;
- Alignment of investment philosophy, process, and style with Plan objectives;
- Size and experience of professional staff;
- Tenure of investment management team;
- Competitiveness of investment management fees;
- Any pending regulatory investigations, censures, conflicts of interest or material legal proceedings.

Documentation of such analysis shall be maintained in compliance with records retention laws by the financial consultant and made available to the Board or staff upon request

INVESTMENT OPTION REVIEW, GUIDELINES AND MONITORING

The following guidelines will be employed regarding monitoring of investment options made available by the Board.

Investment providers and investment managers are required to comply with all applicable laws, rules, and regulations. However, the Board takes no responsibility for the failure of such option and/or investment manager to comply with any and all applicable laws, rules, or regulations.

All options must to have readily ascertainable market values and be easily marketable. It is recognized that capital preservation funds may have liquidity restrictions. Investment options with sales loads, redemption fees, or other non-investment management related expenses will be avoided to the extent possible. Options with deferred sales charges and/or market value adjustments are expected to be avoided to the extent possible.

Each investment option portfolio shall be diversified adequately to reduce risk and comply with the current regulations and applicable Arizona state laws.

Investment option performance, risk, and style consistency is intended to be evaluated on a quarterly basis. Measurements shall be reported for at least the most recent quarter, one-year, three-year, and five-year periods. Performance and risk results will be evaluated using comparisons with this policy, pertinent market indices, and against other same-style peers, where definable. When necessary, investment option performance and risk may be reviewed more frequently.

The Board will periodically review the investment options' progress in meeting the Plan's investment objectives, as reported by the Consultant. Based on that input and upon recommendation from the Consultant, the Board may decide to request that the Board's Investment Selection Subcommittee convene to meet with the Consultant to determine an appropriate recommendation to make to the full Board. Upon approval of a recommendation, the Board may eliminate a fund manager and/or replace or hire additional fund manager(s) with an investment asset class in the Plan at any given time. Investment options are expected to comply with all stated investment objectives, guidelines, and applicable rules contained in the prospectus, offering document, or fund fact sheet, if applicable. Investment performance reviews may include, but are not limited to, a review of:

- Investment portfolios;
- Fees and expenses;
- Investment style, process, and philosophy;
- Investment management personnel; and
- Index tracking error.

The performance review will also include measuring the options' investment performance relative to stated benchmarks or respective indexes and peer groups as well as risk measures. The following will be evaluated:

Quantitative Measures

Active Investment Strategies. Options employing active management are expected to outperform their stated asset class or style benchmark net of all management fees over a trailing five-year time period; and to rank above the 50th percentile of the appropriate peer group for the same trailing five-year time period. It is also expected that the risk of each option, as defined by standard deviation of returns, be commensurate with the prescribed strategy relative to the appropriate market index and/or peer group.

Passive Investment Strategies. Passively managed options are expected to track the performance of the index strategy that the option is designed to replicate, less management fees, with marginal tracking error over the trailing five year-period. It is also expected that the risk of each passive option, as defined by standard deviation of returns, be commensurate with the appropriate market index.

Certain passive investment options operate in a marketplace that includes foreign markets whose exchanges close prior to that of the United States. In these instances, some fund managers may engage in a method of "Fair Value Pricing," whereby the managers adjust the pricing of securities in the Fund to reflect any information that has become available after the close of the applicable foreign market. Discrepancies in performance between the applicable investment option and its performance benchmark that are due to "Fair Value Pricing" and other common index fund tracking factors (such as the timing of market closures, management fees, benchmark nuances, and others) will be taken into consideration in evaluating performance of the affected investment options.

Qualitative Measures

The options will also be monitored on an ongoing basis for other material changes which the Board may determine are of importance to the decision of whether or not to retain an investment option, such as personnel departures; organizational changes; alterations in investment style, philosophy, or strategy; and

adherence to stated guidelines.

Time Periods. The Board acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time-periods. Recognizing that short-term fluctuations may cause variations in an option's performance, the Board desires to employ investment options with long-term investment strategies and will evaluate option performance from a long-term perspective. Performance over market cycles of three to five years will be weighted more heavily than performance over shorter time periods, such as one year or less.

In addition to the qualitative and quantitative measures referenced above, the Board will also review the investment options' risk characteristics in relation to that performance. Risk will be measured in various ways including, but not limited to:

- Standard deviation
- Up and down market performance
- Risk/return ratios such as the Sharp Ratio

Asset Allocation Portfolios. The Plan's asset allocation funds will be evaluated relative to a custom set of benchmarks that have been created to reflect the underlying asset allocation of each of the respective portfolios. The funds will also be compared to an appropriate peer group. In the instance of target retirement date funds, the Board shall consider the current and prospective composition (based on the glide path), and corresponding risk and return implications relative to the benchmark and peer group constituents.

INVESTMENT OPTION TERMINATION AND WATCH GUIDELINES

Generally, all investment options are expected to remain true to their stated investment objectives and to perform as well as or better than their prescribed performance benchmarks, net of fees. Periodic underperformance in any of the criteria outlined in this Investment Policy will not necessitate replacement of an option; however, underperformance will result in consideration by the Board of the factors causing underperformance and possible courses of action that the Board may take.

The Board may, at any time, place any investment option that it views as having a pattern of underperformance on a watch-status. Reasons the Board might place an option on a watch status, include but are not limited to, the following:

Quantitative Measures

Actively Managed Options

- Performance below the prescribed benchmark index over a trailing five-year period, and
- Performance below the median of its peer group over a trailing five-year period.

Passively Managed Options

- Net of fee performance tracking error relative to the respective index that is greater than 20 basis points over a trailing five-year period.

Target Date funds will be evaluated based on the performance of the entire suite as held within the Plan. A Target Date suite will normally be viewed as being in violation of investment policy performance criteria if over one-half of the funds in a Target Date suite held within the Plan lag this Investment Policy Statement's prescribed performance measures. The Board may elect to deviate from this approach if it appears reasonable to do so.

Qualitative Measures

- Management team or another significant personnel turnover;
- Changes in the product's investment philosophy, process, style, or risk profile;
- Excessive or rapid asset growth or decline;
- Pending regulatory investigations or material legal proceedings;
- Changes to firm ownership; or
- Significant increase in management fees or expense ratio.

An investment option may remain on watch status until the Board decides to take further action. Board actions include, but are not limited to, the following:

- Removing the investment option from watch status;
- Terminating the investment option and reallocating the assets to an alternate or replacement investment option by Board direction; and
- Replacing the option.

To be removed from quantitative, performance-related watch status, generally, performance for the five-year trailing periods should be above the benchmark index or median for at least two consecutive quarters. If the option's five-year trailing performance does not return to above median versus same style peers and its benchmark within two (2) quarters of being placed on watch, the option may be considered for termination. However, barring any breakdown in process, the Board may decide to leave an option on watch for as long as it believes it is prudent to do so. To be removed from non-performance related watch status generally the Board must be sufficiently satisfied that any change in process, personnel, or structure will not have an adverse impact on the Plan and its participants.

The Board reserves the right to terminate an investment option at any time, for any reason, when it determines such termination is in the best interests of the Plan, its participants, and its beneficiaries. Once the decision to terminate an option and remove it from the Plan is made, asset transfer and liquidation should be handled to the best advantage of the Plan, with due consideration given to the anticipated effect on affected participants and beneficiaries.