

Board of Trustees of the Cincinnati Southern Railway

Investment Policy Statement

Adoption Date: 02/29/24

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Title

2/29/24
Date

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PRESIDENT
Title

2/29/24
Date

Upon execution, this Investment Policy Statement will supersede all previous versions. A version history is included for reference at the end of this document.

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Definitions

1. **Board of Trustees or Board** shall mean the entity legally known as the Board of Trustees of the Cincinnati Southern Railway.
2. **City** shall mean the City of Cincinnati, an Ohio municipal corporation.
3. **CSR Trust or Portfolio** shall mean Board's investment accounts in aggregate.
4. **Fund** shall mean any Separately Managed Account, pooled investment vehicle, or fund, including, without limitation, mutual funds, exchange-traded funds (ETFs), exchange-traded notes, (ETNs), commingled funds, and privately offered funds.
5. **Initial CSR Trust Balance** means \$1.6 billion.
6. **Investment Advisor** shall mean the advisory firm appointed by the Board or its authorized agent to assist in: developing an Investment Policy Statement, analysis of asset allocation, the identification of investment managers and managed investments including mutual funds, ETFs, alternative investments, and collective trusts, and portfolio evaluation and review.
7. **Investment Manager** shall mean any investment management firm engaged by the Board or its authorized agent to manage the investments of all or part of the Portfolio assets on a discretionary basis.
8. **Investment Policy Statement or IPS** shall mean this document.
9. **Spending Policy** shall mean Board's distribution goal for its annual distribution to the City.

Contact Information

Entity Name

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General Principles

Goals and Objectives

Primary goals

The primary goals of the Board are to preserve Initial CSR Trust Balance, as increased over time, and provide the City with an annual revenue stream in support of its existing infrastructure. The Board must transmit no less than \$26.5 million, as increased for inflation, and ideally more, annually to the City, in accordance with applicable law. The Board intends to conservatively and prudently invest the corpus of the CSR Trust with a goal of generating at least 5.5% in investment income annually. It is the Board's intent to distribute the majority of such income annually to the City and add the remaining investment proceeds to the corpus of the CSR Trust as a hedge against future inflation. Note that no payments are permitted from the Board if the Portfolio balance decreases by 25% or more from the balance of the prior year.

The Board is interested in simplicity in the investment strategy and low risk given these objectives.

Purpose

Statement of purpose

The purpose of this IPS is to set forth a clear and consistent guide for the Board in supervising and monitoring the management of its investable assets. This IPS will be used as the basis for investment decisions, delegations, and evaluation, and will further define the duties and responsibilities of the Board as well as service providers, such as the Investment Advisor and the Investment Managers.

This IPS is intended to provide a fiduciary standard for the investment management and allocation of the assets, consistent with prudent investor standards.

Annually, or on an as needed basis, the Board and the Investment Advisor shall review the IPS in light of prevailing economic or market circumstances. Opportunity should be given for members of the Board to propose changes and to consider changes proposed by the Investment Advisor. In accordance with state law, this IPS will be made available to members of the public.

Standard of care

Prudent person

The "prudent person" standard shall be used by the Board and applied in the context of decisions pertaining to the overall Portfolio, including the decision to delegate duties and obligations to service providers, such as the Investment Advisor and the

Investment Managers. The Investment Managers shall apply the prudent investor standard with respect to investment decisions in accordance with Ohio Revised Code Chapter 5809. The Board will also consider applicable state law which establishes the guidelines for investment and management in a fiduciary capacity.

Generally, trustees, investment managers and all other parties involved in the stewardship of the investment assets of CSR Trust are required to exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio.

Conflicts of interest

Board members involved with the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program or impair their ability to make impartial decisions concerning the management or administration of the Portfolio.

Roles and responsibilities

Authority

The Board may, as more fully described herein, delegate certain of its responsibilities to the Investment Advisor and the Investment Managers or other service providers.

The Board, acting pursuant to this IPS, shall have direct responsibility for the selection of the Investment Advisor and in consultation with Investment Advisor, Investment Managers and for the establishment of investment policies and procedures.

In consultation with the Investment Advisor, the Board will:

- Determine the investment objectives, risk tolerance and investment horizon for the Portfolio, in turn, establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the assets as reflected in the IPS.
- Oversee the performance of the Board's service providers, including the Investment Advisor and Investment Managers.
- Review the investment performance of the Portfolio.
- Ensure that the investment allocation policies established in this IPS are being adhered to.

- Review and authorize operating and investment expenses borne by the Portfolio to ensure they are reasonable.
- Review this IPS at least annually to assess its effectiveness and whether any changes are necessary or prudent in light of CSR's investment objectives and Spending Policy.
- Project the financial needs of the Board and communicate such needs to the relevant service providers, including the Investment Advisor and Investment Managers, on a timely basis.

Investment Advisor

The Board expects the Investment Advisor to provide initial recommendations to the Board and then provide recommendations in accordance with such policies and procedures approved by the Board and engaging with the Investment Managers. The Investment Advisor shall serve the Board in a fiduciary capacity under the Investment Advisers Act of 1940 and is prohibited from investing funds from CSR Trust in its own Fund offerings or those of its affiliated parties.

The Investment Advisor shall assist the Board in developing the IPS and the Portfolio. The Investment Advisor is expected to report at least quarterly and on an as requested basis to the Board on the performance of the Portfolio, including its asset allocation positioning. In addition, the Investment Advisor will assist Board with its annual review of this IPS to assess its effectiveness and whether any changes are necessary or prudent in light of the CSR Trust investment and funding objectives.

Additionally, the Investment Advisor is expected to attend all Board meetings, with regular meetings occurring on a quarterly basis and special meetings to be called as necessary. The Investment Advisor shall

assist staff and the Board with fiduciary education and adoption of perpetual trust-related best practices, along with keeping the Board abreast of new developments in investment management techniques by making available ongoing research, topical papers, and memoranda on current issues of interest to institutional investors.

Investment Managers

The Board and, if permitted by governing documents, its delegate, may select and appoint one or more Investment Managers to manage all or part of the Portfolio's assets on a discretionary basis consistent with this IPS.

Custodian

The Board may appoint a custodian to maintain physical custody and possession of securities and other assets owned by Board, collect dividend and interest payments, redeem maturing securities and effect receipt and delivery following purchases and sales, keep records of transactions and asset movements, provide statements on account activity, and provide such other services as are customary for a custodian to perform. Custody services may be provided by the Investment Advisor or the Investment Managers if offered and available.

Additional service providers

Additional service providers, such as attorneys, auditors, tax advisors and others, may be retained to assist in administering Board's assets.

In retaining all service providers and Investment Managers, the Board will comply with competitive procurement procedures in accordance with applicable law.

Investment policies and procedures

Investment philosophy

While acknowledging the importance of preserving capital, the Board also recognizes the necessity of accepting investment risk if Board's assets are to be able to support long-term investment goals. It is the view of the Board that choices made with respect to asset allocation and liquidity risk will be the major determinants of investment performance. The Board shall seek to ensure that the risks taken are appropriate and commensurate with the Board's goals.

Investment guidelines

The Board, in consultation with the Investment Advisor, is responsible for making decisions concerning the management of the Portfolio's assets in accordance with this IPS. That includes the decision to delegate investment decisions to the Investment Managers. In particular, the Board, as well as the Investment Advisor or Investment Managers who manage or provide services to the Portfolio, must (as applicable given the scope of the delegated duties):

- Make investments for the sole interest and exclusive purpose of providing benefits to Board and CSR Trust;
- Make management and investment decisions about individual assets not in isolation, but rather in the context of the Portfolio's investments as a whole and as part of Board's overall investment strategy, including the risk and return parameters set forth in this IPS;
- Consider the role of each investment and its impact to the overall portfolio;
- Make reasonable effort to verify facts relevant to the management and investment of the assets;
- Recognize that if Funds are utilized, it is understood that investments in any Fund will be governed by that Fund's governing documents, such as a prospectus, offering memorandum, constituent instruments (e.g., declaration of trust, partnership agreement, etc.);
- Incur only costs that are appropriate and reasonable in relation to the Portfolio;
- Consider general economic conditions when making new investments;
- Consider potential tax consequences, if any, of investment decisions or strategies; Account for the needs of the Board in perspective with distribution requirements and ability to preserve capital.

Operating guidelines

The Portfolio will be managed in accordance with the operating guidelines for risk, liquidity, and spending described in this section. In setting the risk and liquidity parameters for the management of the Portfolio, the Board shall consider conditions where it may not be able to meet the liquidity needs of Board, or circumstances where market conditions significantly deteriorate or permanently impair the capital position of Board.

Risk parameters

In constructing the Portfolio, the following risks, although not exhaustive, will be considered:

- Risk of not meeting the payout requirements set forth in state law, specifically that no payments are permitted from the CSR Trust if the fund balance decreases by 25% or more from the balance of the City's prior fiscal year.
- Risk of underperforming the Board's target annual rate of return over a multi-year business cycle, thereby limiting long-term growth as a hedge against inflation.
- Risk of permanent impairment of capital.

Liquidity parameters

If the Board instructs Investment Managers to sell securities and remit required funds, the Investment Managers will do so. In the event this situation arises, the CSR Trust assets are to be invested substantially in liquid securities, defined as securities that can be bought and sold quickly and efficiently with minimal impact on market price.

It is acknowledged that certain investments possess lower degrees of liquidity than others. These less liquid investments can provide opportunities to earn favorable rates of return and portfolio diversification, in return for the investor accepting less liquidity. Investments with limited liquidity may be used within the context of the Portfolio's total investments, provided they are prudent in light of Board's overall investment objectives and Spending Policy.

Spending policy

The Spending Policy seeks to align the competing goals of stability in its support to the City's existing infrastructure and preservation of the CSR Trust in the future. The Board intends to distribute a majority of the investment income generated by the CSR Trust each of the City's fiscal years, which fiscal year is the period between July 1 and June 30.

In accordance with state law, no payments are permitted from the CSR Trust if the Portfolio balance decreases by 25% or greater from the balance of the prior fiscal year.

Investment strategy and performance

The Board may delegate to the Investment Manager the authority to implement the Portfolio's overall asset allocation within the parameters set forth in this IPS. The Investment Manager will implement a strategic asset allocation in accordance with these parameters. The benchmarks identified, consisting of one or more market indexes, shall provide the comparison point for periodic performance review.

Asset allocation

The Investment Manager will implement the asset allocation using a policy with asset allocation ranges for each various asset classes consistent with this IPS. Due to the need for diversification and the longer funding periods occasionally required for phase-in implementation and/or certain investment strategies, the Board recognizes that the Investment Managers may require an extended period of time to fully implement the asset allocation plan. It is expected that market value fluctuations will cause deviations from the target allocations to occur.

Periodic rebalancing will maintain Board's asset allocation policy within the targeted ranges, thereby ensuring that the Portfolio does not incur additional risks as a result of having deviated from the policy for an extended period of time. Rebalancing will take place on a Portfolio basis to reduce expenses as much as practical. More frequent tactical rebalancing of asset classes within their ranges will also be permitted, at the complete discretion of the Investment Managers, in consultation with the Investment Advisor.

The position of the Portfolio relative to its strategic and tactical targets shall be reviewed regularly and adjusted, when needed, through systematic rebalancing and/or at the time of cash inflows and outflows. Given the volatility of capital markets, strategic adjustments in various asset classes may be required to rebalance asset allocation back to its target policy. Such adjustments should be executed so as to minimize excessive turnover and transaction costs.

The asset allocation policy in Table 1 below has been established based on the strategic objectives, Spending Policy and risk tolerance of the Board.

Notwithstanding the asset allocation ranges set forth, it is understood that the Portfolio may, from time to time, be outside these ranges for various reasons,

including, without limitation, temporary defensive positions with respect to the market environment, market fluctuations, and significant contributions to or withdrawals from the Portfolio.

Investment Managers shall serve the Board in a fiduciary capacity under the Investment Advisers Act of 1940.

Permitted investments

It is anticipated that the Portfolio will gain exposure to different asset classes primarily by investing in Funds recommended by the Investment Advisor in accordance with the asset allocation adopted hereto. It is acknowledged that investments held by a Fund will be governed by the Fund's governing and offering documents, such as the Fund's prospectus or offering memorandum.

Performance evaluation

It is the role of the Investment Advisor to:

- Provide composite index for the Board to measure total fund performance relative to an established target asset mix.
- Analyze actual performance of the Portfolio relative to the composite index on an ongoing basis
- Assist the Board in establishing a budget to which fees shall be managed. Fee reports shall be reviewed with the Board quarterly and year-to-date.
- Provide appropriate performance benchmarks for each asset class and each Investment Manager.
- Provide monthly statements and quarterly performance analysis of each underlying Investment Manager and also the Portfolio in aggregate.
- Evaluate Investment Manager performance relative to investment style benchmarks and peer investment managers on a quarterly basis.
- Conduct ongoing discussions with Investment Managers on performance and organizational issues (such as changes in ownership, staff, new products, fees, etc.).
- Advise on Investment Manager retention/termination and help evaluate the under-performance of Investment Managers.
- Conduct recurring organizational and performance audits of each Investment Manager.
- Coordinate with the Board and other professional advisors in the preparation of its annual audit.

Additionally, individual Investment Managers will be compared to relevant market indices and peer group universes of similar funds.

Investment restrictions

Investment restrictions that are applicable to the Portfolio's investments are identified below. However, such restrictions shall not be applicable to Mutual Fund, Exchange Traded Funds, or other comingled fund investments which are subject to fund-specific guidelines that are not available for alteration for individual investors.

The Board may, in consultation with the Investment Advisor, on a case-by-case basis, determine to waive or modify any of the restrictions. Any such waiver or modification shall be made only after a thorough review of the Investment Manager and investment strategy involved and a record of the basis for the waiver or modification shall be maintained by the Board.

Specific to Board, investing is to be prohibited in companies whose primary business activity is the manufacture of firearms.

Voting of Proxies

Proxy voting is an important part of the investment management process. The Investment Managers shall vote the proxies for Separately Managed Accounts on behalf of the CSR Trust. When mutual funds or ETFs are used, the fund companies will vote the proxies.

Execution of securities trades

The purchase and sale of individual securities are to be made in a manner designed to receive the combination of best price and execution.

Diversity, Equity & Inclusion and Environmental, Social & Governance (ESG) principles

The Board recognizes that an investment portfolio that is diversified not only by asset class, but also by discussions and decisions that take place among diverse (defined as women, black, indigenous, people of color, and LGBTQ+) Investment Managers with different perspectives, is more robust and supports stronger risk-adjusted real growth of investment assets. Additionally, the Board is supportive of furthering environmental, social, and governance principles. The primary objective of the Board is to preserve and grow the balance of the corpus of the Portfolio. Therefore, to the extent such practice is not in conflict with the foregoing objective, the Investment Advisor will seek to recommend an investment management strategy where 40% of the Portfolio balance is allocated in the aggregate in utilizing Investment Managers with diverse ownership and employment teams and in furtherance of Environmental, Social & Governance (ESG) principles. The Board believes that Investment Manager selection is a critical component of successful portfolio management. The Board expects that the Investment Advisor will regularly present investment opportunities with diverse managers for consideration. In addition, the Board will consider utilizing custodial services with banking institutions which are majority owned by people of color, to the extent such services are available.

Table 1. Long-term asset allocation target and ranges, excluding Non-traditional investments (may not equal 100%)

<u>ASSET CLASS</u>	<u>MINIMUM RANGE</u>	<u>TARGET</u>	<u>MAXIMUM RANGE</u>	<u>BENCHMARK(S)</u>
Cash and Equivalents	0%	0%	10%	Barclays Capital US Treasury - Bills (1-3 M)
Total Fixed Income	32%	50%	68%	
U.S. Intermediate/Core	22%	35%	48%	Bloomberg U.S. Aggregate (& Intermediate)
U.S. Short-Duration	6%	10%	14%	ICE BofA 1-5Y U.S. Corp
U.S. High Yield	3%	5%	7%	ICE BofA High Yield (BB-B)
Total Equity	37%	50%	63%	
U.S. Large-Cap	18%	24%	30%	S&P 500
U.S. Mid-Cap	3%	5%	7%	Russell Mid-Cap Total Return
U.S. Small-Cap	2%	3%	4%	Russell 2000 Total Return
Non-U.S. Developed	9%	13%	17%	MSCI EAFE
Non-U.S. Emerging	3%	5%	7%	MSCI Emerging Markets

Table 2. Investment Policy Statement Version Control

Policy Version	Date Drafted	Date Adopted	Reason for Revision
1.0	February 29th 2024	February 29th 2024	Initial Plan
2.0			