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## Retiree Health Care Fund Review – 2<sup>nd</sup> Quarter, 2020

City of Birmingham

### **Flagship Financial Partners**

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September 2<sup>nd</sup>, 2020



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# Prior Quarter Summary & Meeting Agenda

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- **1<sup>st</sup> Quarter, 2020 Meeting Summary:**

- We replaced large cap growth manager Bahl & Gaynor to initiate a position in the Polen Focus Growth strategy. We also replaced international and emerging markets manager Lazard with the MFS International Diversification fund.
- The Committee requested a deep dive on the portfolio's alternative investments.

- **2<sup>nd</sup> Quarter, 2020 Meeting Agenda:**

- Quarterly Market Review
- Executive Summary
- Investment Review

# Quarterly Market Review

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# In Q2, risk assets staged a solid rally

## Performance, select asset classes

	Q2 2020	Since 19 Feb peak	Since 23 March trough	YTD 2020
Cash	0.0%	0.3%	0.0%	0.5%
US Gov't FI (short)	0.1%	2.5%	0.3%	3.0%
US Gov't FI (intermediate)	0.7%	6.0%	1.2%	7.9%
US Gov't FI (long)	-0.7%	13.5%	-0.1%	21.6%
US TIPS	4.2%	4.0%	4.4%	6.0%
US Municipal FI	2.7%	0.1%	10.5%	2.1%
US IG Corp FI	8.2%	2.1%	14.9%	4.8%
US HY Corp FI	9.5%	-6.0%	19.8%	-4.8%
EM FI (Hard)	12.3%	-5.0%	19.8%	-2.8%
EM FI (Local)	9.8%	-5.7%	15.6%	-6.9%
US All-cap	22.0%	-8.2%	41.2%	-3.5%
US Large cap growth	27.8%	0.5%	46.6%	9.8%
US Large cap value	14.3%	-17.3%	33.8%	-16.3%
US Mid cap	24.6%	-12.5%	46.5%	-9.1%
US Small cap	25.4%	-14.3%	44.4%	-13.0%
Int'l Developed Markets	14.9%	-10.6%	32.7%	-11.3%
Emerging Markets	18.1%	-8.9%	32.3%	-9.8%
Preferreds	8.8%	-4.5%	31.6%	-3.4%
MLPs	50.2%	-31.4%	68.9%	-35.7%
US Real Estate	11.8%	-22.4%	37.1%	-18.7%
Senior loans	6.6%	-4.2%	23.6%	-3.9%

Source: Bloomberg, UBS, as of 1 July 2020.



The views expressed in this slide belong to CIO Americas, GWM

# Despite ongoing volatility, stocks have continued to recover

S&P 500 index level, with callouts for select news items



Source: Bloomberg, UBS, as of 30 June 2020



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# Most risk assets remain **underwater**...

"Quilt chart" of select asset classes' calendar year performance

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1999-2020 return (ann.)	1999- 2020 return standard deviation
Highest return	66.5%	13.2%	7.2%	11.5%	55.8%	25.6%	34.0%	32.1%	39.4%	12.4%	78.5%	26.9%	10.7%	18.2%	38.8%	13.2%	3.3%	21.3%	37.3%	1.3%	31.4%	8.6%	8.0%	32.2%
	27.0%	11.7%	5.3%	9.6%	47.3%	20.3%	13.5%	26.3%	11.2%	-2.5%	58.2%	18.9%	9.0%	17.3%	33.1%	9.1%	0.9%	17.1%	25.0%	0.9%	25.5%	2.1%	7.1%	19.7%
	21.3%	<b>0.2%</b>	5.1%	-1.4%	38.6%	18.3%	<b>8.0%</b>	18.4%	8.7%	<b>-21.8%</b>	31.8%	16.1%	5.0%	16.4%	22.8%	<b>6.4%</b>	0.9%	12.1%	21.7%	-2.1%	22.0%	-2.8%	6.5%	17.8%
	20.9%	-3.0%	2.5%	<b>-4.2%</b>	29.9%	11.4%	6.3%	15.5%	<b>7.3%</b>	-26.2%	28.4%	15.1%	<b>1.8%</b>	16.3%	<b>11.8%</b>	4.9%	<b>0.1%</b>	11.2%	14.6%	<b>-4.2%</b>	18.4%	<b>-2.9%</b>	6.4%	15.7%
	<b>13.5%</b>	-5.9%	-2.6%	-6.2%	29.0%	11.1%	4.6%	<b>13.0%</b>	5.8%	-33.8%	27.2%	<b>9.2%</b>	1.5%	15.8%	7.4%	4.9%	-0.8%	<b>5.2%</b>	<b>14.4%</b>	<b>-4.8%</b>	<b>16.8%</b>	-3.8%	<b>5.9%</b>	<b>10.3%</b>
	2.4%	-7.8%	<b>-3.6%</b>	-15.9%	<b>21.9%</b>	<b>10.8%</b>	3.5%	11.8%	3.4%	-37.6%	<b>24.8%</b>	7.8%	-4.2%	<b>11.7%</b>	-2.6%	2.5%	-4.4%	1.0%	7.5%	-11.0%	14.3%	-9.8%	4.6%	4.4%
	-2.1%	-14.2%	-12.4%	-20.5%	5.3%	4.5%	2.7%	4.8%	1.9%	-43.4%	12.9%	5.5%	-12.1%	6.8%	-2.6%	-2.2%	-4.5%	1.0%	5.4%	-13.8%	7.5%	-11.3%	4.4%	4.7%
Lowest return	-2.2%	-30.8%	-21.4%	-21.7%	2.4%	3.5%	2.7%	3.5%	-1.6%	-53.3%	-2.2%	2.4%	-18.4%	2.0%	-2.6%	-4.9%	-14.9%	0.2%	2.3%	-14.6%	6.8%	-13.0%	3.6%	20.9%

US Large-cap Equities

US Small-cap Equities

US High Yield Credit

US Gov Fixed Income

US Municipals

**Moderate Diversified Portfolio**

EM Equities

Int'l Dev Equities

Source: Bloomberg, UBS, as of 30 June 2020

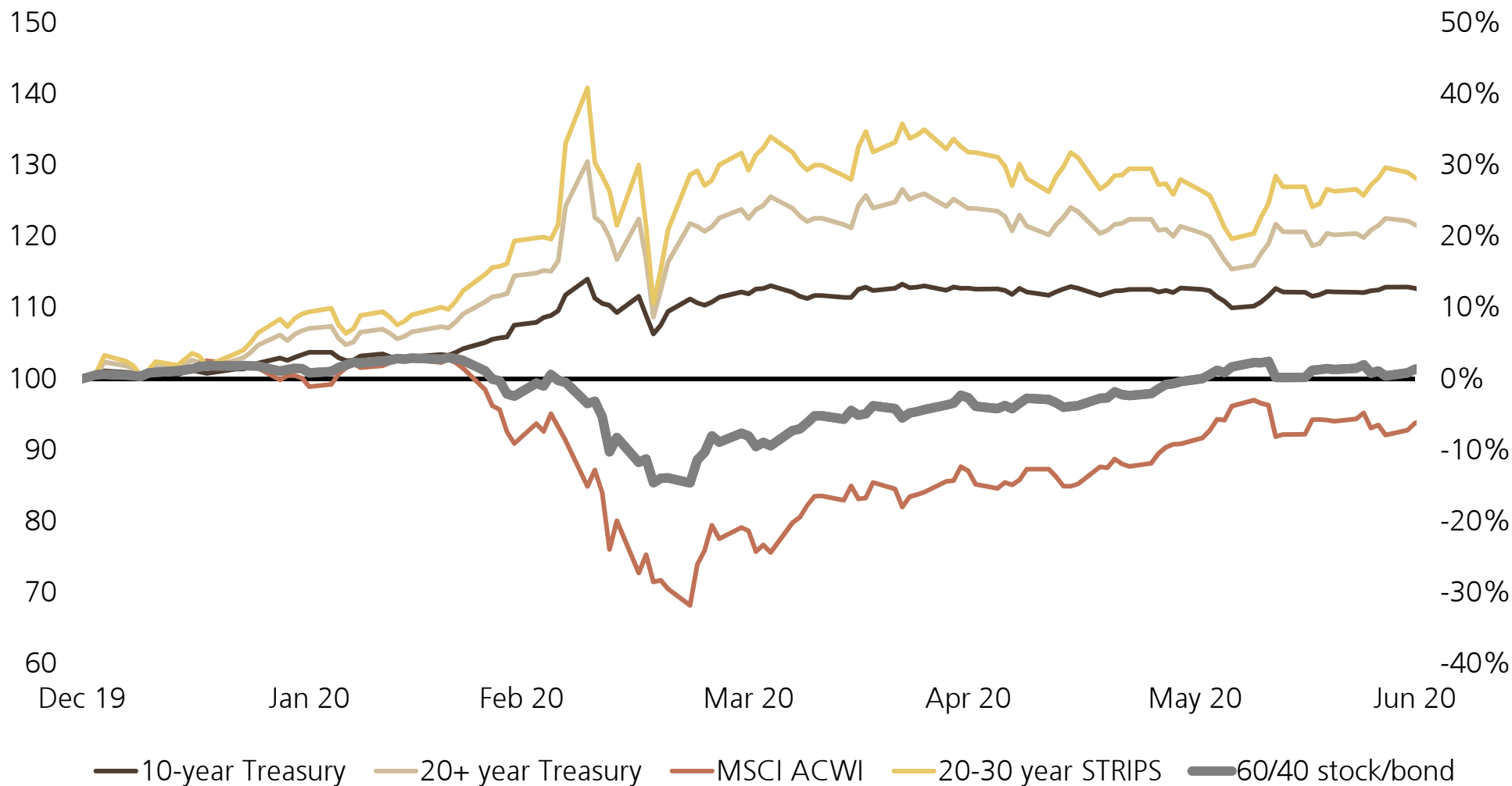
Note: The Moderate Diversified Portfolio performance calculations are a hypothetical analysis based on historical asset class returns. This backward-looking illustration assumes an investment in asset class indexes represented by the current Strategic Asset Allocation (SAA) for a moderate risk profile investor in a taxable portfolio without non-traditional assets. Performance calculations assume annual rebalancing, don't take into account any prior SAA for this investor profile, and include time periods before the SAA was created. See the latest "UBS House View: Detailed asset allocation tables" document for the detailed SAA. These calculations will not match the official published performance data, which reflect monthly rebalancing. For periods prior to 2009, this illustration assumes that the Bloomberg Barclays EM Local Currency Government Total Return Index allocation (inception date of 4 July 2008) was invested fully in the Bloomberg Barclays EM USD Aggregate Total Return Index.



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# ...but balanced portfolios have **mostly recovered**

Growth of USD 100 invested on 31 December 2019, with year-to-date total return on the right-hand scale



The 60/40 stock/bond portfolio is allocated 60% MSCI ACWI and 40% 10-year Treasury index (daily rebalance).  
Source: Bloomberg, UBS, as of 30 June 2020.



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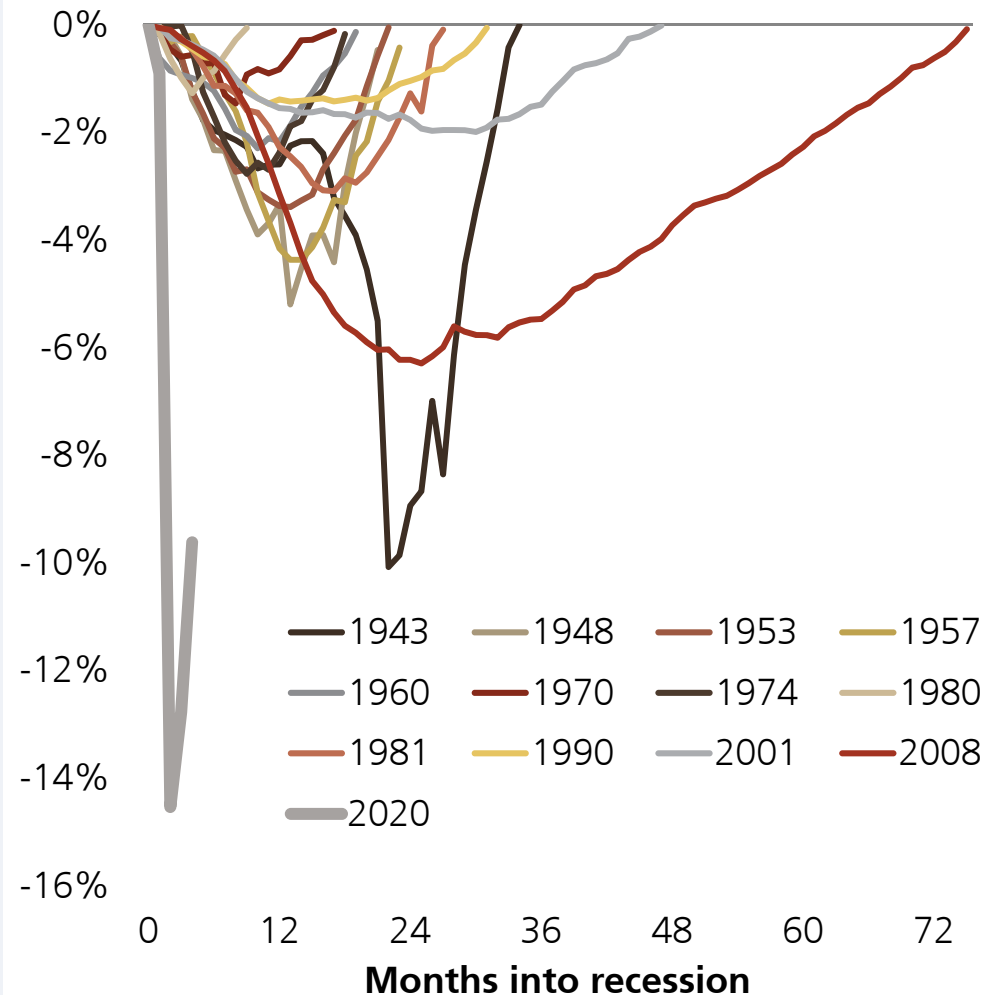


# 2Q 2020 Economic Review

- **Economic growth** was sharply negative during the first weeks of 2Q, but started to recover rapidly during the quarter's final weeks as governments around the globe began to relax the unprecedented lockdown measures.
- **The US labor market** has experienced its largest ever shock, but we have also seen the beginnings of a sharp recovery. After 22 million job losses in March and April, 6.5 million jobs were added in May and June.
- **Inflation** has remained subdued. Year-over-year, Core PCE rose 1% and Headline PCE registered a 0.5% gain in May. With the demand shock from shelter-in-place orders, we continue to expect inflation to remain below the Fed's 2% target, but it is poised to accelerate somewhat as the recovery gains a foothold.

## The economy is starting to recover

Job losses, % of pre-recession peak in non-farm payrolls



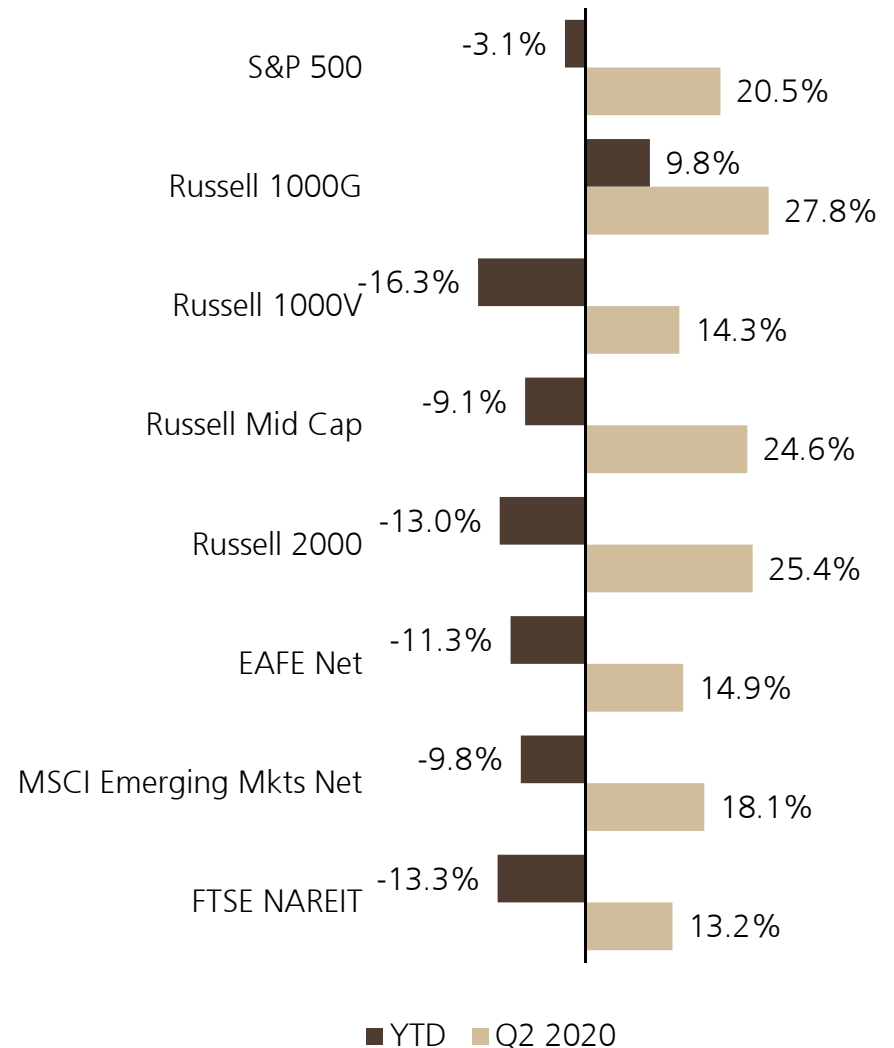
Source: Bloomberg, UBS, as of 1 July 2020.

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# 2Q 2020 Equity Review

- Stocks are still recovering from their bear market losses, but staged a significant rally during the second quarter.
- Within US large-cap stocks, growth outperformed value 27.8% to 14.3% and registered a new all-time high.
- With oil prices nearly doubling during the quarter, MLPs staged a particularly strong rally, up 50.2%; even so, MLPs are still down -35.7% year-to-date.

## Total return for select asset classes



Source: Bloomberg, UBS, as of 30 June 2020

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# US Stocks, Performance by Size and Style

Annualized return, select time periods, in %

## 2Q 2020

Large	14.3	21.8	27.8
Mid	19.9	24.6	30.3
Small	18.9	25.4	30.6
	Value	Blend	Growth

## 1-year

Large	(8.8)	7.5	23.3
Mid	(11.8)	(2.2)	11.9
Small	(17.5)	(6.6)	3.5
	Value	Blend	Growth

## 3-year

Large	1.8	10.6	19.0
Mid	(0.5)	5.8	14.8
Small	(4.3)	2.0	7.9
	Value	Blend	Growth

## 5-year

Large	4.6	10.5	15.9
Mid	3.3	6.8	11.6
Small	1.3	4.3	6.9
	Value	Blend	Growth

Source: Morningstar, as of 30 June 2020

### Representative Indices Used in Style Grid:

**Large Cap Value:** Russell 1000 Value Index  
**Large Cap Blend:** Russell 1000 Index  
**Large Cap Growth:** Russell 1000 Growth Index

**Mid Cap Value:** Russell MidCap Value Index  
**Mid Cap Blend:** Russell MidCap Index  
**Mid Cap Growth:** Russell MidCap Growth Index

**Small Cap Value:** Russell 2000 Value Index  
**Small Cap Blend:** Russell 2000 Index  
**Small Cap Growth:** Russell 2000 Growth Index

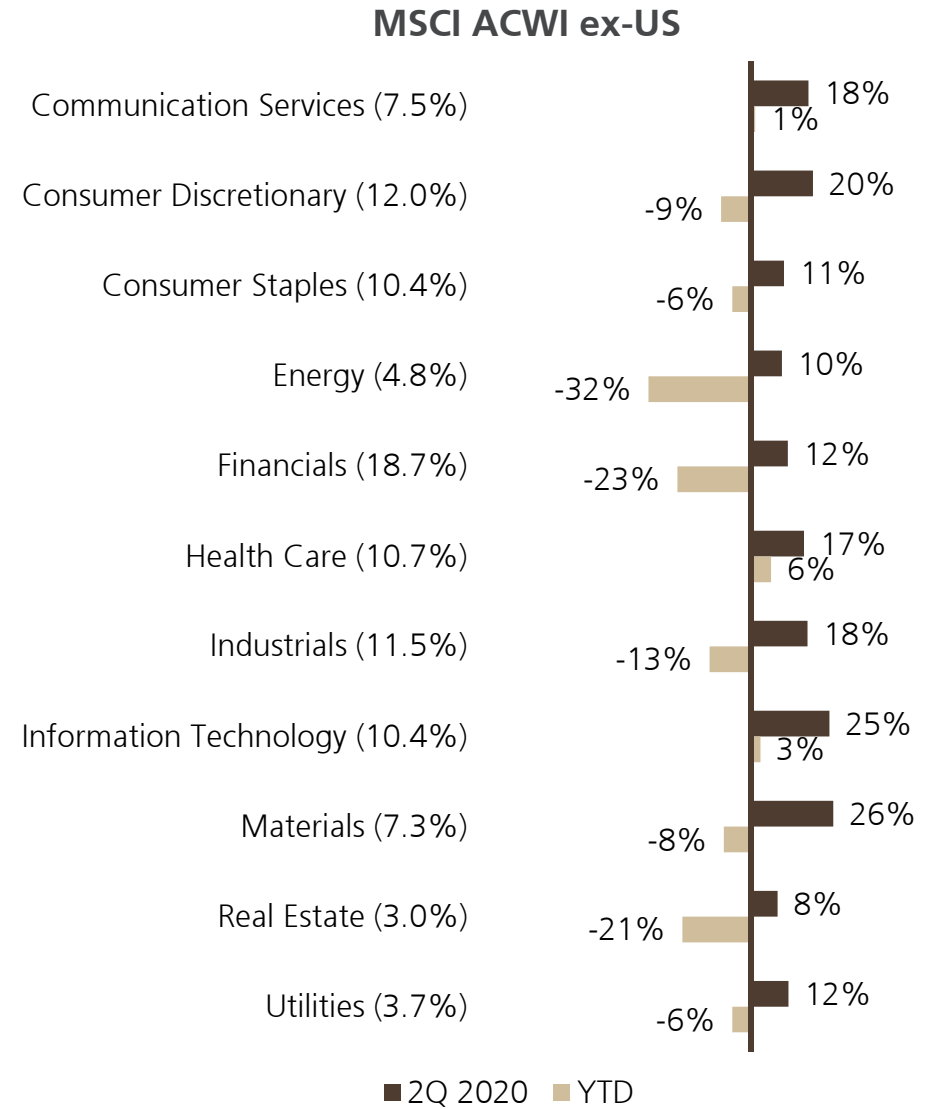
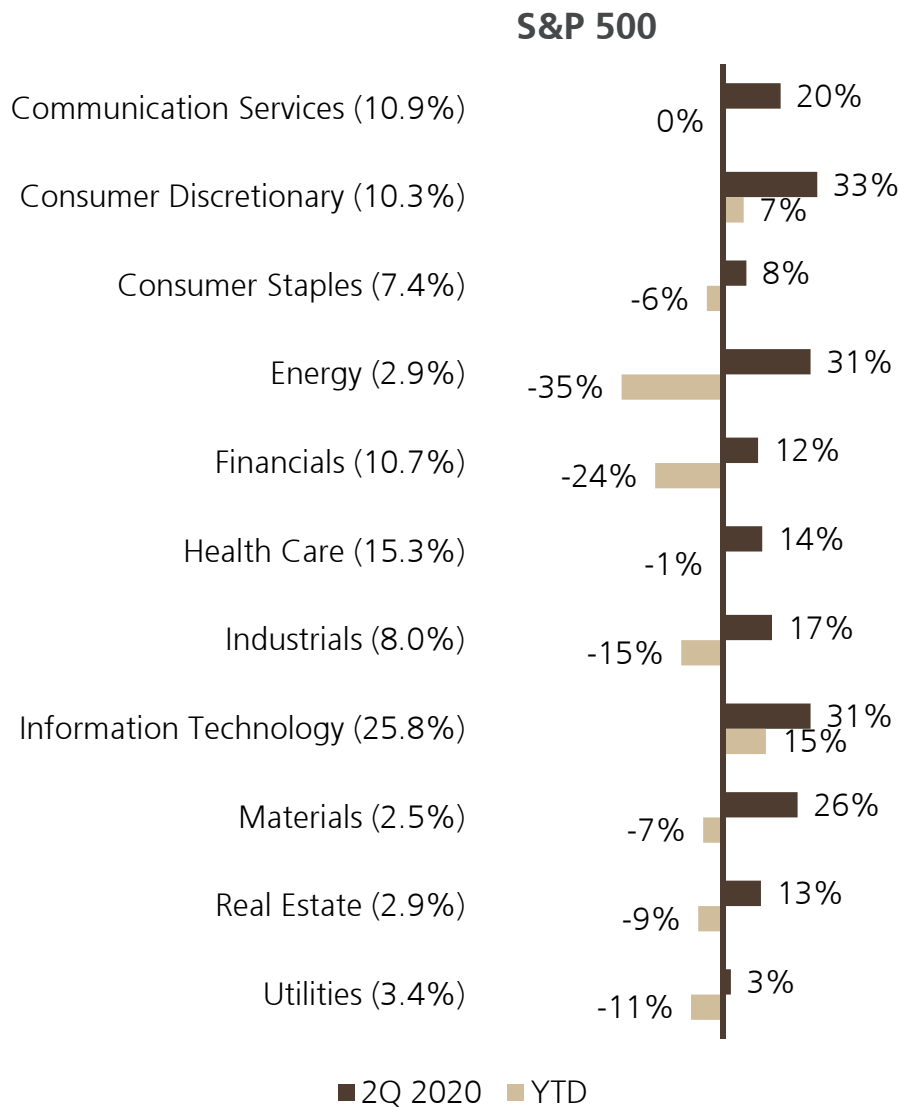
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# Sector Performance: S&P 500 and MSCI ACWI ex-US

Sector performance (weight), YTD and 2Q 2020 returns



Source: FactSet, UBS, as of 30 June 2020

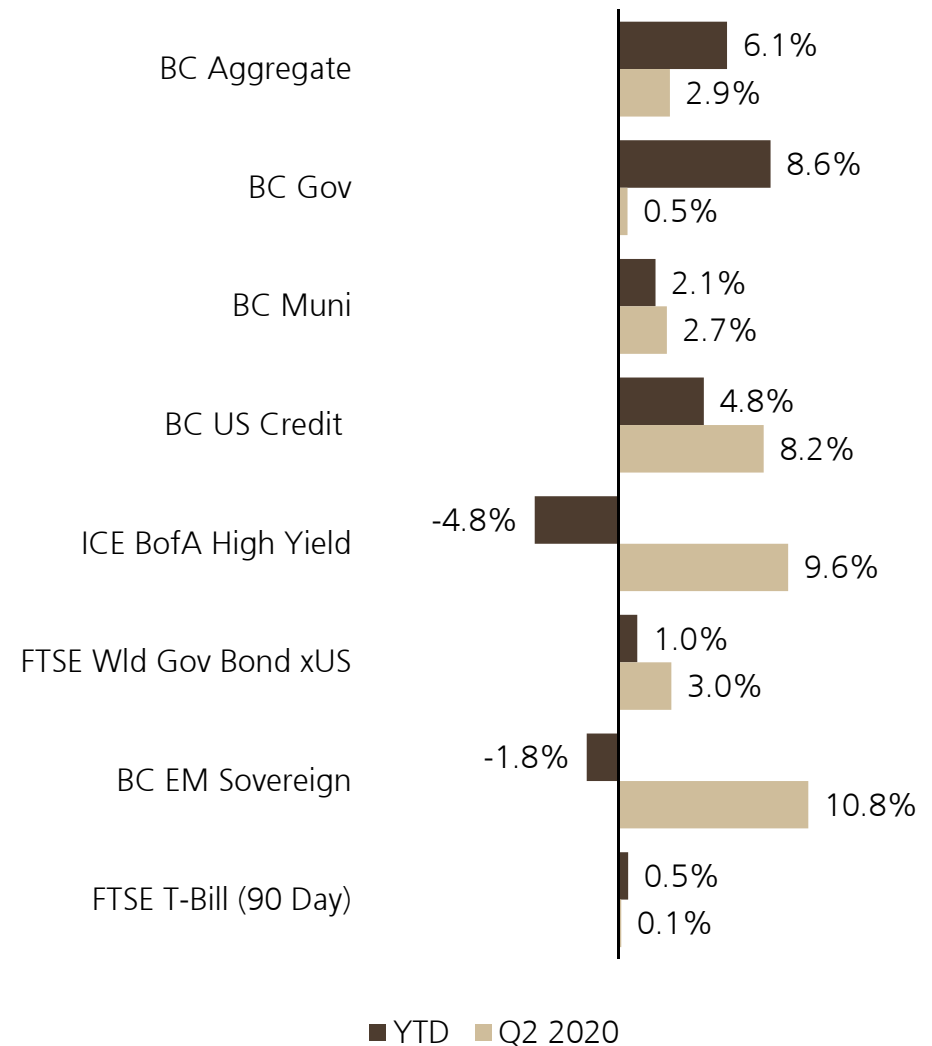


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# 2Q 2020 Fixed Income Review

- Interest rates stayed near record lows during the second quarter; the 10-year Treasury yield fell from 0.70% at the end of March to 0.65% at the end of June.
- Corporate bonds erased many of their Q1 2020 losses, with credit spreads narrowing from near-record levels.
- Emerging market bonds and high yield bonds fared particularly well, while municipal bonds erased their Q1 2020 losses as liquidity conditions improved.

## Total return for select asset classes



Source: Bloomberg, UBS, as of 30 June 2020

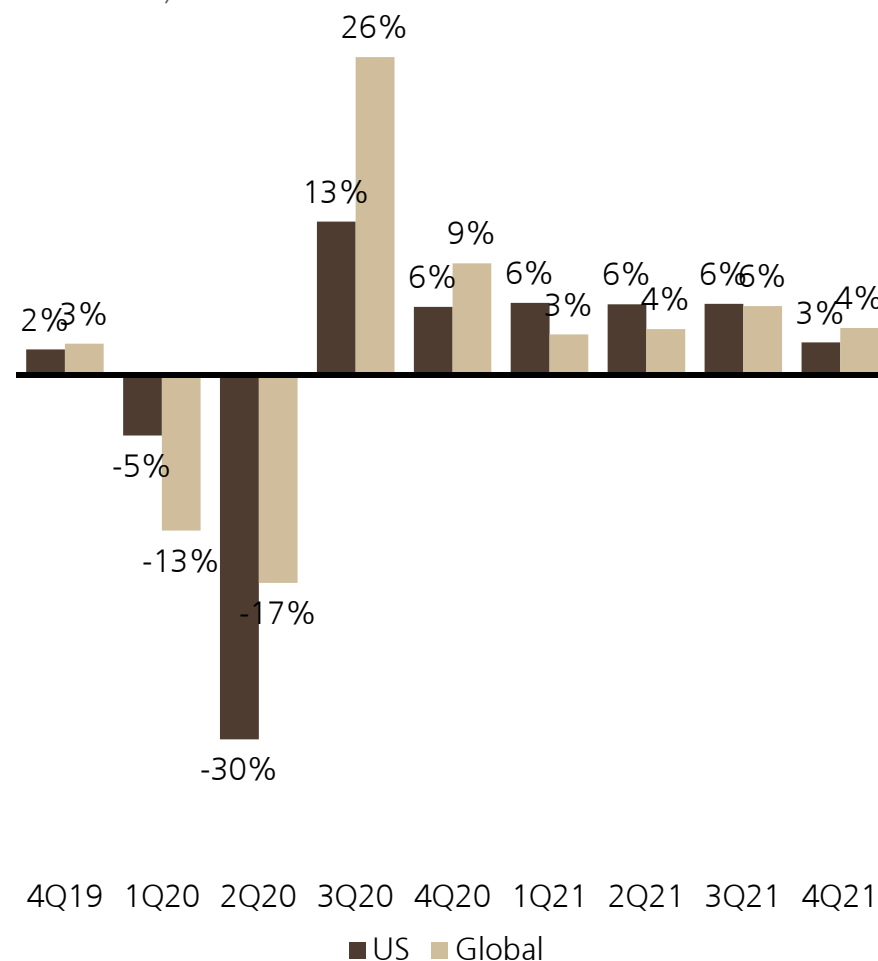
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# 3Q20 Economic and Market Outlook

- Overview** – Global monetary policy is extraordinarily supportive, and sizable fiscal stimulus is being implemented across the globe. With the virus's spread being effectively slowed across most of the globe, we see a lower risk of some of the worst-case economic scenarios. Still, the exact path remains highly uncertain—please see our scenarios on the next page.
- Earnings & Valuations** – With the recent rally in stocks, we believe investors are "looking through" the earnings carnage this year and focusing on earnings expectations for 2021 and beyond. Valuations appear reasonable based on our view for a 28% increase in S&P 500 profits next year to USD 156 per share. But this still equates to an S&P 500 price-to-earnings (P/E) multiple of 19.5x, higher than the average multiple of 16.7x in the five years before COVID-19.
- Interest rates** – Although equity valuations look high in aggregate, interest rates will be a key driver in 3Q and beyond. As long as economic activity continues to recover, low interest rates will support growth stocks' valuations. If interest rates rise from here because the economic growth outlook is improving, growth stock valuations could suffer; this could, on the other hand, provide a tailwind for value stocks' earnings and valuations.

## We expect a deep (but short-lived) recession

US and global GDP q/q growth, with UBS forecasts, in % (annualized)



Source: UBS, as of 1 July 2020

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# Given the uncertainty, we focus on **three scenarios**...

	Virus management and mitigation measures	Second wave(s)	Start of sustained recovery *	Back to normal **
<b>Upside</b>	<ul style="list-style-type: none"> <li>Highly effective vaccine available at full scale by end-2020</li> <li>Sophisticated test and trace model; virus reproduction remains low</li> <li>Drug treatment and higher ICU capacity mitigate impact of the spread in the meantime</li> </ul>	<ul style="list-style-type: none"> <li>No meaningful recurrence of the virus, though minor local outbreaks possible</li> <li>Business-as-usual can resume in the second half of 2020</li> </ul>	During 3Q 2020	3Q-4Q 2020
<b>Central</b>	<ul style="list-style-type: none"> <li>Partial rollout of test and trace models</li> <li>Increased ICU capacity</li> <li>Drug treatment partially reduces ICU demand in autumn</li> <li>Reasonably effective vaccine with first doses by 4Q20; full rollout by mid-2021</li> </ul>	<ul style="list-style-type: none"> <li>Future recurrences of the virus can be accommodated by healthcare systems</li> <li>Public acceptance for lockdown measures diminishes</li> <li>Major lockdown measures do not have to be reimposed</li> <li>Minor restrictions remain in place to year-end ***</li> </ul>	During 3Q 2020	1H 2021
<b>Downside</b>	<ul style="list-style-type: none"> <li>Delayed and limited rollout of test and trace models</li> <li>Limited availability of drug treatment throughout 2020</li> <li>No vaccine available until mid-2021</li> </ul>	<ul style="list-style-type: none"> <li>Future waves prove too large for healthcare systems</li> <li>Some or all of the major restrictions have to be reimposed intermittently</li> </ul>	1H 2021	2H 2021

\* Sustained recovery is defined as a stage at which Google Community Mobility for Retail and Recreation stabilizes at 80% of the pre-pandemic level, or higher, in all major regions.

\*\* "Back to normal" is defined as a stage at which Google Community Mobility for Retail and Recreation returns to pre-pandemic levels in all major regions.

\*\*\* Remaining minor restrictions would likely correspond to an Oxford Stringency Index value of around 35 points, or below, across major countries. Measures can include cancellations of public events, partial restrictions on gatherings and international travel, and general physical distancing guidelines.

Source: UBS.



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...which help us identify **opportunities** amidst **uncertainty**.

UBS CIO central, downside, and upside June 2021 expectations

Index	Current (2 July)	June 2021 forecasts, projected change		
		Central scenario	Upside scenario	Downside scenario
S&P 500	3,150	3,300 (4.8%)	3,500 (11.1%)	2,800 (-11.1%)
Euro Stoxx 50	3,320	3,300 (-.6%)	3,800 (14.5%)	2,600 (-21.7%)
MSCI EM	1,001	1,100 (9.9%)	1,200 (19.9%)	750 (-25.1%)
Swiss Market Index	10,188	10,800 (6.0%)	11,300 (10.9%)	9,000 (-11.7%)
US IG spread (bps)	158	150 bps (-8)	120 bps (-38)	350 bps (192)
US HY spread (bps)	634	550 bps (-84)	400 bps (-234)	1,250 bps (616)
EM USD bonds spread (bps)	449	400 bps (-49)	280 bps (-169)	700 bps (251)

Source: UBS, as of 2 July 2020



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# Recap

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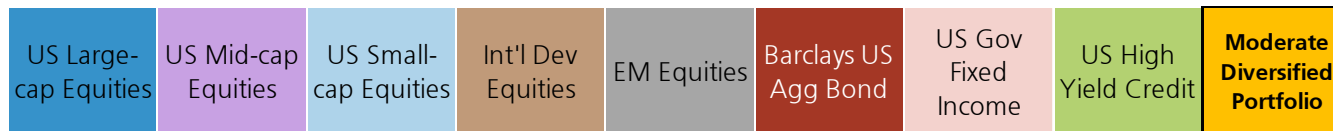
- We believe market developments from here will be determined by three "market narratives": the "Fed" story, the "second wave" story, and the "US election" story.
- While the second wave and US election narratives will cause **higher volatility in risky assets** as each moves to the forefront of investors' minds, we think the Fed story has the greatest implications for markets over the near and medium term.
- Despite a 40+% rally in the S&P 500 since the 23 March low, **we expect market volatility to persist for several months**. Bear market rallies are common, and are often followed by further losses.
- Maintaining a balanced and well-diversified portfolio is always the first line of defense. In addition, investors can protect themselves from the risk of locking in otherwise-temporary losses using a well-funded Liquidity strategy—enough to meet the next 3-5 years of cash flow needs. This is the key to investing long-term capital with confidence that those assets won't have to be sold at bear market prices. Without locking in the losses we see during bear markets, **the actual damage investors face can be significantly reduced**.
- Tactically, we **prefer taking risk in both equities and credit**, which should be bolstered by unprecedented fiscal and monetary support around the world as well as improving confidence as downside risks recede.
  - Within credit we like **emerging market hard-currency (USD-denominated) sovereign bonds, US investment grade bonds, and US high yield bonds**. Spreads have compressed but remain elevated, and while there will be near-term volatility, these positions should perform strongly over the next 6-12 months.
  - We also like **Treasury Inflation Protected Securities (TIPS)**, which should benefit from a "reflation" scenario.
  - Within stocks we like **US mid-caps**, which have lagged the performance of larger stocks and should rally strongly as the fundamental picture improves.
  - In other developed markets, we like **UK equities**, which are relatively cheap versus their Eurozone peers.

Source: UBS, as of 2 July 2020. Timeframes may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

# Long-Term Market View

## Calendar year and long-term return statistics for select asset classes

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1999-2020 return (ann.)	1999-2020 std. dev.
Highest return	66.5%	13.2%	8.4%	11.5%	55.8%	25.6%	34.0%	32.1%	39.4%	12.4%	78.5%	26.9%	9.0%	18.2%	38.8%	13.2%	0.9%	21.3%	37.3%	0.9%	31.4%	8.6%	8.5%	19.6%
	27.0%	11.6%	7.2%	10.3%	47.3%	20.2%	13.5%	26.3%	11.2%	5.2%	58.2%	25.5%	7.8%	17.3%	34.8%	13.2%	0.9%	17.1%	25.0%	0.0%	30.5%	6.1%	8.0%	32.2%
	21.3%	8.2%	5.3%	-1.4%	40.1%	20.2%	12.7%	18.4%	8.7%	-21.8%	40.5%	18.9%	5.0%	17.3%	33.1%	6.4%	0.5%	13.8%	21.7%	-2.1%	25.5%	-2.8%	7.1%	19.7%
	20.9%	0.2%	2.5%	-4.2%	38.6%	18.3%	8.0%	15.5%	7.3%	-26.2%	31.8%	16.1%	1.8%	16.4%	22.8%	6.0%	0.1%	12.1%	18.5%	-4.2%	22.0%	-2.9%	6.5%	17.8%
	18.2%	-3.0%	-2.6%	-6.2%	29.9%	11.4%	6.3%	15.3%	7.0%	-33.8%	28.4%	15.1%	1.5%	16.3%	11.8%	4.9%	-0.8%	11.2%	14.6%	-4.8%	18.4%	-3.8%	6.4%	15.7%
	13.5%	-5.9%	-3.6%	-15.9%	29.0%	11.1%	4.6%	13.0%	5.8%	-37.6%	27.2%	9.2%	-1.5%	15.8%	7.4%	4.9%	-2.4%	5.2%	14.4%	-9.1%	16.8%	-9.1%	5.9%	10.3%
	2.4%	-7.8%	-5.6%	-16.2%	21.9%	10.8%	2.7%	11.8%	5.6%	-41.5%	24.8%	7.8%	-4.2%	11.7%	-2.0%	2.5%	-4.4%	2.6%	7.5%	-11.0%	14.3%	-9.8%	4.8%	3.5%
	-0.8%	-14.2%	-12.4%	-20.5%	4.1%	4.3%	2.7%	4.3%	1.9%	-43.4%	5.9%	6.5%	-12.1%	4.2%	-2.6%	-2.2%	-4.5%	1.0%	3.5%	-13.8%	8.7%	-11.3%	4.4%	4.7%
Lowest return	-2.2%	-30.8%	-21.4%	-21.7%	2.4%	3.5%	2.4%	3.5%	-1.6%	-53.3%	-2.2%	5.5%	-18.4%	2.0%	-2.6%	-4.9%	-14.9%	1.0%	2.3%	-14.6%	6.8%	-13.0%	3.6%	20.9%



Source: Bloomberg, UBS, as of 30 June 2020



Note: The Moderate Diversified Portfolio performance calculations are a hypothetical analysis based on historical asset class returns. This backward-looking illustration assumes an investment in asset class indexes represented by the current Strategic Asset Allocation (SAA) for a moderate risk profile investor in a taxable portfolio without non-traditional assets. Performance calculations assume annual rebalancing, don't take into account any prior SAA for this investor profile, and include time periods before the SAA was created. See the latest "UBS House View: Detailed asset allocation tables" document for the detailed SAA. These calculations will not match the official published performance data, which reflect monthly rebalancing. For periods prior to 2009, this illustration assumes that the Bloomberg Barclays EM Local Currency Government Total Return Index allocation (inception date of 4 July 2008) was invested fully in the Bloomberg Barclays EM USD Aggregate Total Return Index.

# Executive Summary

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## Birmingham Retiree Health Care Fund - Asset Allocation

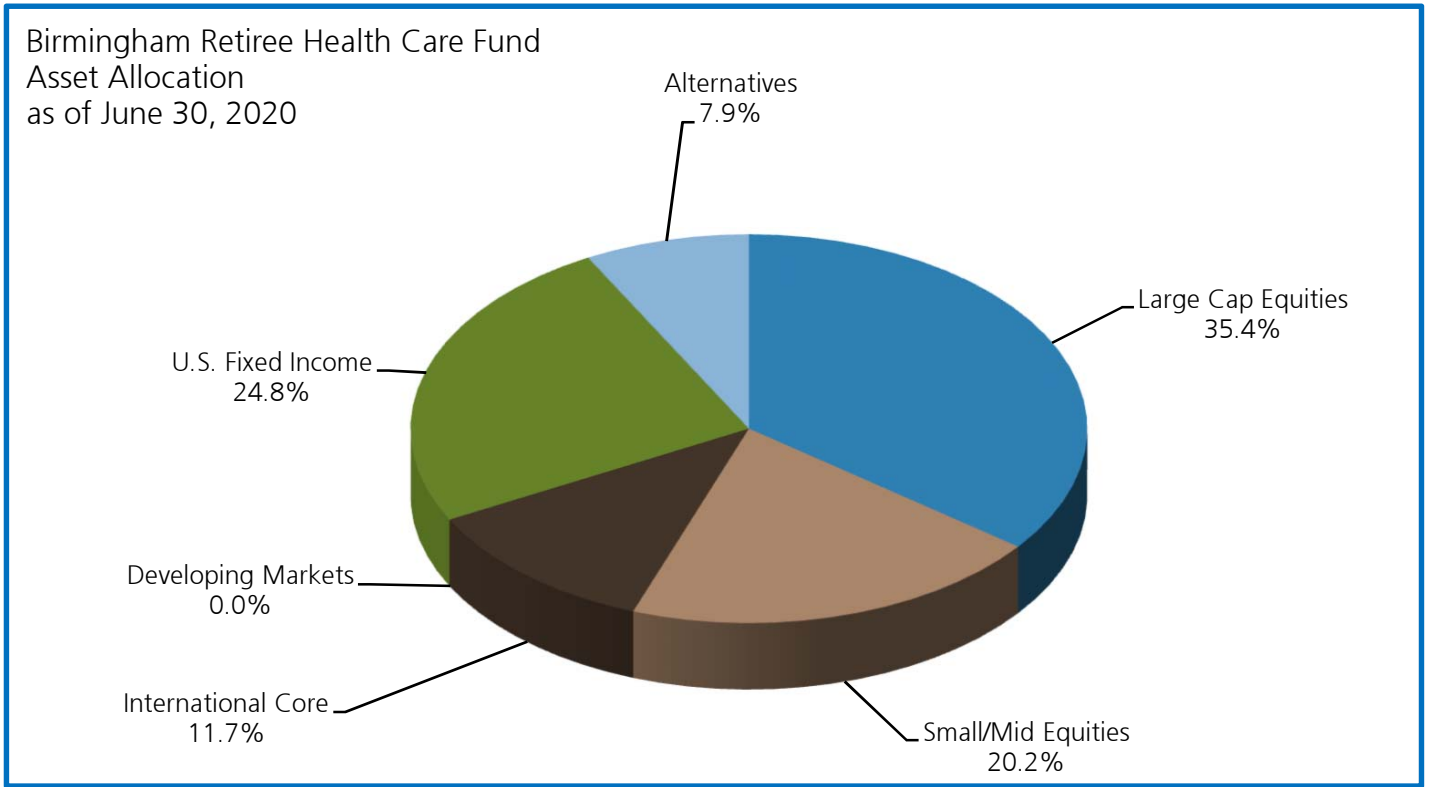
As of: 6/30/2020

Manager	Market Value	% of Portfolio	Min.	% Allocation Target	Max.	% Delta	\$ Delta
<b>Equity</b>							
<b>US Large Cap Equity</b>							
Vanguard S&P 500 ETF	\$5,666,285	14.6%					
Bahl & Gaynor Large Cap Growth	\$5,063	0.0%					
Polen Focus Growth	\$4,176,172	10.8%					
Westwood Large Cap Value	\$3,886,529	10.0%					
<b>Total US Large Cap Equity</b>	<b>\$13,734,049</b>	<b>35.4%</b>	<b>20.0%</b>	<b>34.0%</b>	<b>50.0%</b>	<b>1.4%</b>	<b>\$532,172</b>
<b>US Small/Mid Cap Equity</b>							
Vanguard Mid Cap Index ETF	\$2,888,606	7.4%					
Apex SMID Cap Growth	\$2,808,095	7.2%					
Gabelli Small Cap Value	\$2,138,219	5.5%					
<b>Total US Small/Mid Cap Equity:</b>	<b>\$7,834,920</b>	<b>20.2%</b>	<b>5.0%</b>	<b>14.0%</b>	<b>20.0%</b>	<b>6.2%</b>	<b>\$2,398,853</b>
<b>Non US Equity</b>							
Lazard International Equity	\$4,052	0.0%					
MFS International Diversification	\$4,543,732	11.7%					
<b>Total International</b>	<b>\$4,547,784</b>	<b>11.7%</b>	<b>3.0%</b>	<b>8.0%</b>	<b>14.0%</b>	<b>3.7%</b>	<b>\$1,441,460</b>
<b>Developing Markets</b>							
<b>Total Developing Markets</b>	<b>\$0</b>	<b>0.0%</b>	<b>2.0%</b>	<b>4.0%</b>	<b>6.0%</b>	<b>-4.0%</b>	<b>-\$1,553,162</b>
<b>Total Equity:</b>	<b>\$26,116,753</b>	<b>67.3%</b>	<b>35.0%</b>	<b>60.0%</b>	<b>85.0%</b>	<b>7.3%</b>	<b>\$2,819,323</b>
<b>Fixed Income</b>							
<b>US Fixed Income</b>							
Bradford & Marzec Fixed Income	\$5,544,516	14.3%					
C.S. McKee Fixed Income	\$2,815,829	7.3%					
Bramshill Income Performance	\$1,288,141	3.3%					
<b>Total US Fixed Income</b>	<b>\$9,648,486</b>	<b>24.8%</b>	<b>20.0%</b>	<b>30.0%</b>	<b>50.0%</b>	<b>-5.2%</b>	<b>-\$2,000,229</b>
<b>Total Fixed Income:</b>	<b>\$9,648,486</b>	<b>24.8%</b>	<b>20.0%</b>	<b>30.0%</b>	<b>60.0%</b>	<b>-5.2%</b>	<b>-\$2,000,229</b>
<b>Alternative Investments</b>							
Cavendish Managed Futures	\$997,567	2.6%					
Graham Absolute Return Hedge Fund	\$1,057,015	2.7%					
Whitebox Multi-Strategy Hedge Fund	\$1,009,229	2.6%					
<b>Total Alternative Investments</b>	<b>\$3,063,811</b>	<b>7.9%</b>	<b>0.0%</b>	<b>10.0%</b>	<b>15.0%</b>	<b>-2.1%</b>	<b>-\$819,094</b>
<b>Cash &amp; Equivalents</b>							
<b>Total Cash &amp; Equivalents</b>	<b>\$0</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>20.0%</b>	<b>0.0%</b>	<b>\$0</b>
<b>Total Portfolio</b>							
<b>Total Portfolio:</b>	<b>\$38,829,050</b>	<b>100.0%</b>		<b>100.0%</b>			

This chart is for illustrative purposes only and may not reflect current market values. Values as of the date indicated may be rounded for convenience. % of Total of portfolio is computed using the market value and the total portfolio. The values have been provided by a third party considered to be reliable. However, UBS does not warrant the accuracy of this information and is not responsible for any inaccuracies.

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## Birmingham Retiree Health Care Fund - Asset Allocation



## Birmingham Retiree Health Care Fund - Performance Summary

As of: 6/30/2020

Manager	Q2, 2020	YTD, 2020	1 Year Anlz.	3 Year Anlz.	5 Year Anlz.	7 Year Anlz.	10 Year Anlz.	Inception to Date	Inception Date
<b>Portfolio</b>	<b>13.9%</b>	<b>-4.7%</b>	<b>1.1%</b>	<b>4.7%</b>	<b>4.8%</b>	<b>6.0%</b>	<b>7.3%</b>	<b>5.5%</b>	<b>6/1/2001</b>
Target Index*	13.2%	-2.0%	4.2%	6.2%	6.1%	7.1%	8.3%	5.3%	
CPI + 3%	0.4%	1.0%	3.8%	4.9%	4.7%	4.5%	4.7%	5.0%	
6.75% Actuarial Assumed Rate	1.6%	3.3%	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%	
<b>Domestic Large Cap Equity</b>									
Vanguard S&P 500 ETF	20.5%	-3.1%	7.5%	10.7%	-	-	-	12.2%	5/1/2016
S&P 500 Index	20.5%	-3.1%	7.5%	10.7%	-	-	-	12.3%	
Bahl Gaynor Large Cap Growth	18.2%	-5.3%	4.0%	12.1%	11.1%	12.0%	13.5%	12.5%	9/1/2009
Russell 1000 Growth Index	27.8%	9.8%	23.3%	19.0%	15.9%	16.6%	17.2%	15.9%	
Polen Focus Growth	-	-	-	-	-	-	-	-	6/1/2020
Russell 1000 Growth Index	-	-	-	-	-	-	-	-	
Westwood Large Cap Value	13.3%	-13.1%	-4.4%	5.8%	7.0%	9.1%	11.5%	7.4%	7/1/2008
Russell 1000 Value Index	14.3%	-16.3%	-8.8%	1.8%	4.6%	7.1%	10.4%	7.0%	
<b>Domestic Small/Mid Cap Equity</b>									
Vanguard Mid Cap Index ETF	25.0%	-	-	-	-	-	-	25.0%	3/1/2020
Spliced Vanguard Mid Cap Fund Index	25.0%	-	-	-	-	-	-	25.0%	
Apex SMID Cap Growth	33.1%	2.9%	8.8%	12.6%	-	-	-	8.7%	7/1/2015
Russell Mid Cap Growth Index	30.3%	4.2%	11.9%	14.8%	-	-	-	11.4%	
Gabelli Small Cap Value	16.2%	-24.7%	-20.2%	-7.7%	-0.6%	2.9%	8.2%	7.2%	6/1/2001
Russell 2000 Value Index	18.9%	-23.5%	-17.5%	-4.3%	1.3%	4.0%	7.8%	6.6%	
<b>International Equity</b>									
Lazard International Equity	20.3%	-6.9%	-3.2%	3.1%	3.3%	5.5%	7.7%	6.0%	6/1/2001
MSCI EAFE Index	14.9%	-11.3%	-5.1%	0.8%	2.1%	3.9%	5.7%	4.5%	
MFS International Diversification	-	-	-	-	-	-	-	-	6/1/2020
MSCI EAFE Index	-	-	-	-	-	-	-	-	
<b>Developing Markets</b>									
<b>U.S. Fixed Income</b>									
Bradford & Marzec Fixed Income	3.3%	5.8%	8.9%	5.7%	4.9%	4.7%	4.9%	5.1%	9/1/2009
Barclays Aggregate Bond Index	2.9%	6.1%	8.7%	5.3%	4.3%	4.0%	3.8%	4.1%	
C.S. McKee Fixed Income	9.8%	9.5%	14.6%	7.4%	5.6%	4.9%	4.7%	5.0%	8/1/2009
Barclays Aggregate Bond Index	2.9%	6.1%	8.7%	5.3%	4.3%	4.0%	3.8%	4.1%	
Bramshill Income Performance	7.9%	-0.6%	1.5%	-	-	-	-	2.3%	3/1/2019
Barclays Aggregate Bond Index	2.9%	6.1%	8.7%	-	-	-	-	9.6%	
<b>Alternative Investments</b>									
Cavendish Managed Futures	-4.6%	-16.8%	-14.4%	-2.7%	-	-	-	-2.1%	5/1/2016
HFRI Macro: Systematic Diversified Index	-2.5%	-2.9%	-1.7%	0.5%	-	-	-	-0.6%	
Graham Absolute Return Hedge Fund	6.8%	-9.4%	-6.2%	-	-	-	-	-5.2%	4/1/2019
HFRI Macro Index	0.1%	-0.9%	0.6%	-	-	-	-	1.8%	
Whitebox Multi-Strategy Hedge Fund	6.9%	-9.9%	-9.1%	-	-	-	-	-7.9%	4/1/2019
HFRI RV: Multi-Strategy Index	5.6%	-0.9%	0.5%	-	-	-	-	0.6%	

\*Target Index is currently comprised of 25% S&P 500 Index, 15% Russell Mid Cap Index, 5% Russell 2000 Index, 10% MSCI EAFE Index, 5% MSCI Emerging Markets Index, 35% Bloomberg Barclays US Aggregate Index, and 5% HFRI Macro: Systematic Diversified Index.

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## Birmingham Retiree Health Care Fund - Fee Analysis

As of: 6/30/2020

Manager	Market Value	Portfolio Allocation	UBS Consulting Fee %	Investment Mgr. Fee (%)	Total Annual Expense (%)	Total Q2, 2020 Estimated Expense (\$)
<b>Equity</b>						
<b>US Large Cap Equity</b>						
Vanguard S&P 500 ETF	\$5,666,285	14.6%	0.065%	0.03%	0.10%	\$1,346
Bahl & Gaynor Large Cap Growth	\$5,063	0.0%	0.065%	0.30%	0.37%	\$5
Polen Focus Growth	\$4,176,172	10.8%	0.065%	0.60%	0.67%	\$6,943
Westwood Large Cap Value	\$3,886,529	10.0%	0.065%	0.65%	0.72%	\$6,947
<b>Total US Large Cap Equity</b>	<b>\$13,734,049</b>	<b>35.4%</b>				
<b>US Small/Mid Cap Equity</b>						
Vanguard Mid Cap Index ETF	\$2,888,606	7.4%	0.065%	0.04%	0.11%	\$758
Apex SMID Cap Growth	\$2,808,095	7.2%	0.065%	0.55%	0.62%	\$4,317
Gabelli Small Cap Value	\$2,138,219	5.5%	0.065%	1.00%	1.07%	\$5,693
<b>Total US Small/Mid Cap Equity:</b>	<b>\$7,834,920</b>	<b>20.2%</b>				
<b>Non US Equity</b>						
Lazard International Equity	\$4,052	0.0%	0.065%	0.65%	0.72%	\$7
MFS International Diversification	\$4,543,732	11.7%	0.065%	0.76%	0.83%	\$9,371
<b>Total International</b>	<b>\$4,547,784</b>	<b>11.7%</b>				
<b>Developing Markets</b>						
<b>Total Developing Markets</b>	<b>\$0</b>	<b>0.0%</b>				
<b>Total Equity:</b>	<b>\$26,116,753</b>	<b>67.3%</b>				
<b>Fixed Income</b>						
<b>US Fixed Income</b>						
Bradford & Marzec Fixed Income	\$5,544,516	14.3%	0.065%	0.25%	0.32%	\$4,366
C.S. McKee Fixed Income	\$2,815,829	7.3%	0.065%	0.35%	0.42%	\$2,921
Bramshill Income Performance	\$1,288,141	3.3%	0.065%	1.47%	1.54%	\$4,943
<b>Total US Fixed Income</b>	<b>\$9,648,486</b>	<b>24.8%</b>				
<b>Total Fixed Income:</b>	<b>\$9,648,486</b>	<b>24.8%</b>				
<b>Alternative Investments<sup>^</sup></b>						
Cavendish Managed Futures	\$997,567	2.6%	0.065%	1.00%	1.07%	\$2,656
Graham Absolute Return Hedge Fund	\$1,057,015	2.7%	0.065%	2.00%	2.07%	\$5,457
Whitebox Multi-Strategy Hedge Fund	\$1,009,229	2.6%	0.065%	1.50%	1.57%	\$3,949
<b>Total Alternative Investments</b>	<b>\$3,063,811</b>	<b>7.9%</b>				
<b>Cash &amp; Equivalents</b>						
<b>Total Cash &amp; Equivalents</b>	<b>\$0</b>	<b>0.0%</b>	0.065%	0.00%	0.07%	\$0
<b>Total Portfolio</b>						
<b>Total Portfolio:</b>	<b>\$38,829,050</b>	<b>100.0%</b>			<b>0.61%</b>	<b>\$59,680</b>

<sup>^</sup>Additional incentive fees apply.

\*Total Expenses reflect only the total estimated expenses of the underlying funds and do not include account-level expenses, such as trading costs.

\*\*Expense values reflect Net Expense Ratio per Morningstar Direct and fund prospectus. This fee includes a portion payable to both UBS and the third party investment manager. No portion of this fee is considered compensable revenue to the Institutional Consultant.

Gross expenses include a fund's management fee, administrative and servicing fees, advertising fees (if any) and other fees and expenses borne by the fund, and do not show the effect of any fee waivers or expense reimbursements (which would be shown in a "net expense ratio").

\*\*\* Investment Manager Fees reflect a negotiated rate with UBS

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Please note that certain assets may be excluded from this report. The excluded assets may represent a substantial portion of your total portfolio's value. Please refer to your official custodial statements for values and/or performance of the excluded assets.

The basis of the target allocation is the client's most recent IPS that UBSFS has on file.

Investment Manager Fees reflect a negotiated rate with UBS

Sources: Custodial Statements; IPS

Review code: IS1602741& IS1602841

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# Investment Review

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# Investment Monitoring Methodology

- **IPS Investment Criteria:**

1. Manager tenure greater than or equal to 3 years
2. \*3 year performance greater than benchmark / + 3 year R<sup>2</sup> is greater than 95%
3. 3 year performance greater than 50% of peers
4. 3 year Sharpe Ratio greater than 50% of peers
5. \*3 year Sortino Ratio greater than 50% of peers / +3 year Tracking Error less than 90% of its peers
6. \*5 year performance greater than benchmark / +5 year R<sup>2</sup> is greater than 95%
7. 5 year performance greater than 50% of peers
8. 5 year Sharpe Ratio greater than 50% of peers
9. \*5 year Sortino Ratio greater than 50% of peers / +5 year Tracking Error less than 90% of its peers
10. Expense Ratio less than 50% of peers
11. Investment Style is consistent with the fund's objectives.



**Passed IPS Screen**



**Informal Watch**



**Formal Watch**

*\*IPS Investment Criteria used for actively managed investment options / +IPS Criteria used for passively managed index investment options.*

- **Performance Statistic Definitions:**

Sharpe Ratio – Measures an investment's reward per unit of risk. It is calculated by taking the investment's average monthly return in excess of the Treasury bill return (presumed risk free rate of return) and dividing by the monthly standard deviation of excess returns.

Sortino Ratio – Quantifies an investment's reward per unit of downside risk. It is calculated similar to the Sharpe Ratio, except that it uses the monthly standard deviation of excess returns in negative markets in the denominator of the formula.

R<sup>2</sup> – Assesses the correlation between an investment's return with that of its benchmark index. R<sup>2</sup> values range from 0 to 100 and a high R<sup>2</sup> (greater than 95) implies that the investment returns are in-line with the movements of the benchmark index more than 95% of the time.

Tracking Error – Evaluates the consistency of returns by measuring the standard deviation of the difference between the returns of the investment option and those of the benchmark index. Tracking Error should be lower than 90% of the peer group.

- **Watch Methodology:**

**Passed IPS Screen:** An investment is in good standing if it passes at least 7 of the 11 Watchlist criteria.

**Informal Watch:** An investment will be placed on Informal Watch if it fails 5 of the 11 Watchlist criteria. An investment may be on Informal Watch for a total of 4 consecutive quarters, after which it must meet 7 of the 11 Watchlist criteria or be placed under Formal Watch.

**Formal Watch:** An investment will be placed on Formal Watch if it fails 6 or more of the Watchlist criteria. An investment may be on Formal Watch for 3 consecutive quarters, after which the Investment Advisor will take one of three steps as outlined in the IPS.



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## Birmingham Retiree Health Care Fund 2nd Quarter, 2020 Review (6.30.20)

Category	Investment Option	Plan Assets (6.30.20)	% of Assets	Plan Entry	1	2	3	4	5	6	7	8	9	10	11	Previous Quarter Status	Current Quarter Status
Large Blend	Vanguard S&P 500 ETF (VOO)	\$5,666,285	14.6%	May-16	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Large Growth	Bahl & Gaynor Large Cap Growth	\$5,063	0.0%	Sep-09	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✓	FW	FW
Large Growth	Polen Focus Growth	\$4,176,172	10.8%	Jun-20	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	-	✓
Large Value	Westwood Large Cap Value	\$3,886,529	10.0%	Jul-08	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mid Cap Blend	Vanguard Mid Cap Index ETF (VO)	\$2,888,606	7.4%	Mar-20	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mid Cap Growth	Apex SMID Cap Growth	\$2,808,095	7.2%	Jul-15	✓	✗	✓	✗	✗	✗	✗	✗	✗	✗	✓	FW	FW
Small Value	Gabelli Small Cap Value	\$2,138,219	5.5%	Jun-01	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Foreign Large Blend	Lazard International Equity	\$4,052	0.0%	Jun-01	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✓	IW	IW
Foreign Large Blend	MFS International Diversification (MDIZX)	\$4,543,732	11.7%	Jun-20	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	✓
Diversified Emerging Markets	Lazard Emerging Markets Equity (LZEMX)	\$0	0.0%	Dec-07	✓	✗	✗	✗	✗	✗	✗	✗	✗	✓	✓	FW	FW
Intermediate Core Bond	Bradford & Marzec Fixed Income	\$5,544,516	14.3%	Sep-09	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Intermediate Core Bond	C.S. McKee Fixed Income	\$2,815,829	7.3%	Aug-09	✓	✓	✓	✓	✗	✓	✓	✓	✓	✗	✓	✓	✓
Nontraditional Bond	Bramshill Income Performance (BRMSX)	\$1,288,141	3.3%	Mar-19	✓	✗	✓	✓	✓	N/A	N/A	N/A	N/A	✗	✓	IW	✓
Alternative Investments	Cavendish Managed Futures	\$997,567	2.6%	May-16													
Alternative Investments	Graham Absolute Return Hedge Fund	\$1,057,015	2.7%	Apr-19													
Alternative Investments	Whitebox Multi-Strategy Hedge Fund	\$1,009,229	2.6%	Apr-19													
Cash	Cash	\$0	0.0%	Jun-01													
<b>Total Plan Assets:</b>		<b>\$38,829,050</b>	<b>100%</b>														



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# Statement of Risk

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1. Equity markets are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions, and other important variables.
2. Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning any securities referenced in this report.
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4. Although historical default rates are very low, all municipal bonds carry credit risk, with the degree of risk largely following the particular bond's sector. Additionally, all municipal bonds feature valuation, return, and liquidity risk. Valuation tends to follow internal and external factors, including the level of interest rates, bond ratings, supply factors, and media reporting. These can be difficult or impossible to project accurately. Also, most municipal bonds are callable and/or subject to earlier than expected redemption, which can reduce an investor's total return. Because of the large number of municipal issuers and credit structures, not all bonds can be easily or quickly sold on the open market.

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