

# **UNITED STATES STEEL AND CARNEGIE PENSION FUND**

## **FIRM BROCHURE** (Part 2A of Form ADV)

**March 28, 2014**

This brochure provides information about the qualifications and business practices of United States Steel and Carnegie Pension Fund. If you have any questions about the contents of this brochure, please contact Darin R. Hoffner at the address provided below. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about United States Steel and Carnegie Pension Fund also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration does not imply a certain level of skill or training.

## **Material Changes**

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### **Material Changes since the Last Update**

This Firm Brochure updates the brochure dated March 28, 2013. There have been no material changes since the last update.

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## **Advisory Business**

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United States Steel and Carnegie Pension Fund (“UCF”) is a Pennsylvania not-for-profit membership corporation established in 1914. UCF’s corporate purpose is to administer and maintain a system of benefits, pensions or aids for the employees of United States Steel Corporation, any successor thereto and certain corporations, partnerships, limited liability companies and associations (and any of their successors) in which United States Steel Corporation directly or indirectly maintains or has formerly maintained a significant economic interest. United States Steel Corporation together with its wholly-owned affiliates are referred to herein as “USS”. As a membership corporation, there are no owners of UCF. There are currently twelve members of UCF, nine of whom are employees of USS and three of whom are employees of UCF. Since 1950, UCF has provided investment management services for the benefit programs of USS, some of its joint venture companies and some former affiliates (such former affiliates and joint venture companies being hereinafter called “Other Clients”). In light of its corporate purpose, UCF’s performance for its clients is also governed by the Employment Retirement Income Security Act of 1975, as amended (“ERISA”).

In its role as investment manager, UCF invests directly in publicly traded equity and fixed income securities. UCF also invests in emerging markets, investment trusts, timber, private equity and real estate, utilizing third party managers for those investments. UCF assists the investment committees of the various plan sponsors in determining an appropriate asset allocation for the particular plan.

For plans sponsored by USS, asset allocation and investment guidelines and restrictions are determined by the Investment Committee of UCF. UCF also acts solely in an advisory capacity in advising and reviewing for USS the defined contribution plans sponsored by USS. For plans sponsored by Other Clients, asset allocation, investment guidelines and restrictions are determined by fiduciaries appointed by the plan sponsor.

UCF is also involved in benefits administration, providing for the payment to the beneficiaries of various pension and welfare plans sponsored by USS. None of the benefits administration employees are involved with UCF’s investment activities. Most investment management activities of UCF are under the supervision of UCF’s Investment Committee, a committee of UCF’s Board of Directors. Three out of six members of the Investment Committee are employees of USS, the remaining three members are employees of UCF. UCF employees engaged in the investment management activities of UCF are referred to herein as “Investment Employees”. Investment Employees also include some UCF employees who provide accounting services for UCF’s investment management services.

UCF has a third role in benefits accounting and consulting for the trusts and benefit plans of USS and Other Clients. The UCF Accounting group includes Investment Employees who are responsible for the back and middle office accounting functions for the asset trusts and who provide information and direction to the plan custodians and plan sponsors

regarding deposits, holdings, and other financial reporting for the trusts. It supports the advisory roles of other Investment Employees through programming and reporting activities. The UCF Accounting group provides the accounting and reporting for the UCF corporate entity, including its payrolls and administration. It also performs other plan related accounting, actuarial and accounts payable activities for most of the benefit plans of USS, including those which do not require asset management services. Independently from the Investment Committee, it prepares and consults with the plan sponsors regarding recommended and mandatory contribution amounts for the plans sponsored by USS.

As of December 31, 2013, UCF had \$9.9 billion in assets under management. All assets are managed on a discretionary basis. However, such assets exclude \$1.1 billion (USD) held by plans sponsored by USS' Canadian affiliate for which UCF advises such affiliate in the selection and monitoring of third party investment managers. More than 80% of the assets under management are held by plans sponsored by USS.

## **Fees and Compensation**

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To the extent that costs are incurred by UCF which are attributable solely to a particular client account, such costs are charged to such account. All other costs incurred by UCF for investment management activities for its New York office, including salaries, employee benefits, overhead, etc., are calculated pro rata for the various accounts based upon the size of the respective accounts. Costs incurred by the UCF Accounting group are charged to the clients based upon an estimate of the employee time spent on such activities.

No plan sponsored by USS is charged a fee in excess of allocated cost. A fee in excess of costs may be charged to the account of Other Clients. This additional fee will be a negotiated add-on to the allocated costs as described in the preceding paragraph. Accounts are billed monthly in arrears. Clients' accounts are charged directly where authorized by the plan sponsor. In all other cases, the plan sponsor is billed for such charges. UCF receives no compensation from third parties with respect to the purchase of securities or other investment products.

Where third party managers are utilized, the fees of such managers are charged directly to the assets under management by those managers. In the case of private equity, real estate and timber, such third-party fees generally include performance-based fees.

Cash and publicly traded securities are held by bank custodians and the custodian fees are paid directly from client assets. In addition, clients incur brokerage fees (see **Brokerage Practices**).

Investment Employees are paid a salary plus incentive compensation. The compensation program for investment professionals provides for total compensation sufficient over the long term to allow it to attract, retain and motivate high quality employees. A key goal of this program is that no individual should be encouraged to take greater risks in search of a

larger bonus than UCF would ordinarily take. Compensation surveys of competitive investment institutions and analysis of long-term risk-adjusted performance are used by the Chairman of UCF's Investment Committee and the President of UCF in connection with determining total compensation. The Chairman and members of the UCF Accounting Group are not participants in UCF's compensation program for investment professionals.

## **Performance-Based Fees and Side-By-Side Management**

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UCF does not charge any performance-based fees.

## **Types of Clients**

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UCF is the investment manager for various trusts associated with several defined benefit pension plans and certain retiree medical and life insurance plans sponsored by USS, for several defined benefit plans sponsored by Other Clients and for a not-for-profit foundation sponsored by USS. In addition, UCF acts as an investment adviser to USS with respect to the selection and monitoring of several defined contribution and 401(k) plans sponsored by USS.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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Investment strategies are formulated for each client based on that client's risk tolerances. UCF meets with executives and committees from each client in order to ascertain expected cash flows, liquidity needs, return expectations and funded status. While UCF will provide advice, it is ultimately the client that determines asset allocation targets. UCF determines individual security selection across 6 broad asset classes: short term investments, public stocks, public bonds, real estate, timber, and private equity. For all publicly traded stocks and bonds, UCF employs fundamental research to gain a thorough understanding of the company, its competitive position within the industry, its valuation, and the potential for growth and profitability.

Short term investments are held to meet liquidity needs. As a result, maximum emphasis is placed on preservation of capital. Only high quality corporate issuers and government guaranteed securities are acceptable investments.

UCF clients receive most of their exposure to public equity holdings through the UCF Equity Fund LP (the "Equity LP"). The stocks held by the Equity LP are primarily mid and large cap U.S. domiciled entities but can be global companies as well. Securities are selected across a broad range of industries and companies to diversify against the impact of volatility or loss that might result from specific developments in any single industry or company. In order to gain focused exposure to non-North American markets, UCF clients may hold ownership interests in multiple investment partnerships and investment trusts. These vehicles are broadly diversified by country. All stocks are subject to volatility caused by political and economic activity and perception. Some companies and

industries may be more impacted than others. Emerging market equities may suffer the most from greater volatility due to political uncertainty. All foreign stock holdings are subject to fluctuation in value due to changes in currency exchange rates.

As of the end of 2013, substantially all bond holdings were within the UCF Fixed Income LP (the “Income LP”). However, there may be occasions when particular funds attempt to achieve risk characteristics that differ from the Income LP, and this could be accomplished through specific purchases outside the Income LP. With respect to the Income LP, nearly all bonds are investment grade and U. S. dollar denominated. Income LP holdings include both government and corporate bonds. Any mortgages held are backed by the U. S. government or one of its agencies. All bonds are subject to fluctuation in value as interest rates change. In addition, corporate bonds are susceptible to credit risk and price declines as a particular company or industry is perceived to become less profitable or stable. In order to mitigate risk, holdings of corporate bonds are spread across multiple industries and companies.

Illiquid asset classes pose unique risks. Normally, private equity and real estate investments are done through exempt investment funds that require initial (up-front) commitments for future investment over a period of several years. Additionally, secondary markets are not always liquid – any attempts to quickly exit the investment will likely result in receiving less than optimum value. Finally, because the timing of cash flows are unknown (in combination with the inability to exit investments quickly), the allocation to these asset classes can be volatile over short periods of time. Expectation for returns on these investments is significantly higher than publicly held securities, but the volatility surrounding those returns is commensurately higher as well. UCF’s strategy is to invest in funds that have strong track records, stable management with significant sector expertise, and compensation policies that are aligned with partners’ interests.

Timber assets are held through limited partnerships with plans sponsored by USS holding a majority interest. The remaining partners are plans sponsored by Other Clients. If a minority owner desires to sell its interest at a time that the USS plans do not desire to sell, marketability may be adversely impacted. Conversely, one or more USS plans may control the disposition of the timber assets without the consent of the minority owners. In light of the potential conflict under ERISA in these situations, UCF, on behalf of one or more of the plans, may need to appoint an independent fiduciary to represent the interests of such minority owners. The timing uncertainty of capital calls for timber assets is significantly less than for private equity and real estate, as timber is normally bought with the intent of being self funding. UCF purchases timber assets on an opportunistic basis, with the intent of adding value by being able to hold the assets over a long time frame taking advantage of the long growing cycle for trees. Prospective timber investments should have both a cash return and a capital appreciation component.

UCF does not utilize any frequent trading strategies for any of the assets it has under management. This is a purposeful attempt to minimize trading costs and take advantage of the ability to hold equity securities over investment cycles. In bonds, UCF focuses on

investment opportunities that are expected to provide relative value over the intermediate term.

Regardless of the methods detailed above to mitigate and manage risk within a client's account, investing in securities involves the potential for loss with respect to some or all of the principal invested. All clients must be prepared to bear this loss.

## **Disciplinary Information**

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Neither UCF nor any management person has been involved in any legal or disciplinary events material to the conduct of UCF's advisory business or the integrity of its management.

## **Other Financial Industry Activities and Affiliations**

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As noted earlier, UCF has formed and serves as the general partner of two limited partnerships: Equity LP and Income LP. These partnerships were formed for the purpose of permitting all the pension and welfare plans managed by UCF to invest in publicly traded securities through a commingled vehicle. Equity LP invests in publicly traded equities. Income LP invests in publicly traded fixed income securities and securities which qualify under the safe harbor for resale provided by SEC Rule 144A. UCF receives no fees or compensation from the partnerships (see **Fees and Compensation**).

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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UCF's Code of Ethical Business Conduct addresses the use of confidential information, conflicts of interest such as gifts and entertainment and personal trading. The Code provides that failure to report a known ethics violation constitutes a violation of the Code. All Investment Employees are provided with information about the various means to report a violation and for obtaining information concerning the Ethics Code. A copy of the Code is available to all clients upon request. The Investment Committee and all Investment Employees are also required to sign an affirmation of compliance with the Code annually.

The Code prohibits the disclosure of any confidential information to any third parties. An Investment Employee may become a director or officer of any for-profit business entity only if (i) such role is in furtherance of UCF's investment in such business entity or (ii) the UCF Board of Directors approves such role. Members of UCF's Investment Committee and all Investment Employees are required to provide an annual Conflicts of Interest Questionnaire which discusses business relationships of close family members which may involve companies with whom UCF does business.



With certain exceptions, the Code prohibits the receipt by any Investment Employee of any gift, entertainment or other favor from an entity doing business with UCF or from any entity in which UCF has an investment or is planning an investment unless such gift is of minimal value (generally \$100 or less). Reasonable travel expenses reimbursed by a partnership in which an Investment Employee serves as a member of the partnership advisory committee are permitted. Also, Investment Employees are permitted to attend broker and company conferences which are held for securities analysts and investors generally where the costs are provided by the conference sponsor. An Investment Officer or the General Counsel for New York-based employees, and the Comptroller for UCF Accounting employees, may approve a gift, entertainment or favor outside the guidelines if the officer determines that it will not compromise the Investment Employee's ability to carry out his duties and is customary in similar situations. UCF maintains a log of all such gifts, entertainment and favors.

While UCF is the general partner for two limited partnerships (see **Other Financial Industry Activities and Affiliations**), UCF does not participate as an economic partner.

Investment Employees and the Investment Committee are permitted to trade for their personal account in those securities which are also held in client accounts. All securities transactions by such persons (including accounts in which those persons are beneficial owners or other accounts in which they exercise investment discretion) are required to be reported quarterly. Prior clearance for transactions must be granted by an officer for any securities which are included in the Restricted Securities list or for any securities being offered in an initial public offering. The Restricted Securities list contains those securities held by any client account, any securities which are under serious consideration for purchase for any client account and any securities in which the General Counsel determines that UCF may be in possession of material inside information. All Investment Employees and the Investment Committee are also required to file an annual holdings report. The President of UCF reviews all holdings reports in order to have a general knowledge of significant holdings of Investment Employees who may be making investment recommendations. However, it is unlikely that any Investment Employee would profit by making recommendations solely to enhance his personal portfolio since most securities held in UCF accounts are for large cap companies and the level of UCF trading is unlikely to influence the price of such securities.

## **Brokerage Practices**

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Brokerage firms are selected according to the quality of service provided by them, including both their competence in executing securities trades and the quality of research support provided by them. The commission paid, negotiated for each trade, is not necessarily the lowest available commission but is influenced by factors such as the amount and quality of research support provided by the firm. The complexity of the trade and the expertise of the broker with respect to the particular security will be taken into account in choosing the particular brokerage firm and in determining the commission paid.

A semi-annual review, or more frequent if desirable, is made by all staff securities analysts of research services provided to UCF, using the factors described herein to determine whether services continue to serve the interests of UCF's clients. UCF provides its clients with an annual summary of commissions paid by UCF and an analysis of the impact on those commissions by choosing brokers based upon the quality of their research. Since all of UCF's costs are borne directly by UCF's clients, UCF has little incentive to prefer higher commission brokers rather than paying directly for the research. The decision about whether to pay directly for research or to use brokerage commissions to obtain such research is made according to which method is more cost-effective and to how such research is provided under current industry practice.

UCF is provided with various research products relating to political and economic developments, as well as developments relating to particular companies, industries and investment products. These research products include written reports and analysis by various strategists, economists and industry analysts. Included in this category are various company and industry (both investment management and pension fund management) conferences sponsored by brokers. The research services benefit all the accounts for which UCF renders investment advice. However, clients may not receive the research benefits proportionately based upon the commissions paid.

Brokerage firms and other consultants to UCF sponsor industry and company meetings and conferences which include meals and token gifts. UCF maintains a record of all meals, gifts or entertainment provided at such meetings. Such record is available to all clients on request.

UCF does not receive any client referrals from brokers.

While UCF would consider a client request that UCF execute transactions through a specific broker ("directed brokerage"), UCF would consider such request in light of its duty under ERISA to act in the best interest of plan participants. Most transactions executed through brokers are done in one of the two limited partnerships managed by UCF and UCF would not consider such transactions as being eligible for directed brokerage by a single client.

The plan has adopted portfolio management and trading practices in order to assure that investment opportunities are fairly allocated and trading and allocation errors are adjusted in an objective fashion. In addition, contributions and withdrawals to either limited partnership are generally restricted to monthly transactions. Given that the overwhelming majority of all publicly traded securities are bought and sold by the Equity LP and the Income LP, there are few occasions when security purchases or sales are aggregated across clients. In those rare instances when this does occur, UCF follows an established policy regarding the allocation of securities among accounts. Generally, the policy states that orders are filled pro rata across all accounts participating in the trade unless the size of one account's trades would result in smaller accounts being treated inequitably. If all orders are filled within the same day, prices are based upon the average weighted price.

Otherwise, the first trades of the day are allocated among the smaller accounts based upon the average weighted price of the trades which were required to fill the order. With respect to real estate, timber and private equity, investments are allocated based upon the target weights for the particular plans in the relevant asset class, taking into account tax and other regulatory matters which may affect each plan. If capacity is limited in the particular investment, the investment will be filled pro rata across all accounts taking both the total asset size of such account and the target weights into account.

## **Review of Accounts**

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All accounts and trading activity in public securities are reviewed daily by UCF officers. Monthly summary reports are provided to the Investment Committee and a quarterly summary report is provided to its Board of Directors. Detailed quarterly reports are provided to the Investment Committee. For all accounts associated with ERISA plans, an annual report on Form 5500 is filed with the Department of Labor.

The two limited partnerships managed by UCF are audited annually by an independent public accounting firm. In addition, all accounts managed by UCF are audited annually by independent public accounting firms. In the case of the limited partnerships and accounts managed for USS, UCF designates the accounting firm. For Other Clients, the independent public accounting firm is designated by the particular plan's plan sponsor.

Clients receive written summary reports monthly and more detailed quarterly written reports. These reports contain market values of broad classes of assets, listings of largest positions, largest purchases and sales, forecasted investment activity for the remainder of the year, and more detailed information regarding illiquid investments. In addition, the President reports at least once a year to officials of United States Steel Corporation and the President or a Vice President meets periodically with all other clients.

## **Client Referrals and Other Compensation**

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A majority of the Board of Directors and the Investment Committee are employees of United States Steel Corporation. More than 80% of the assets under management by UCF are held by plans sponsored by USS. In addition, UCF employees participate in benefit plans sponsored by United States Steel Corporation, including stock-based compensation programs.

In order to assure that clients no longer affiliated with United States Steel Corporation are not subject to discriminatory treatment, UCF provides to such clients' independent auditors access to its books and records to assure that management expenses are fairly allocated. While ERISA prohibits UCF from charging more than actual expenses to plans sponsored by USS, UCF reserves the right to charge some clients more than it charges to other clients. However, due to the restrictions imposed by ERISA, any

additional charges in excess of actual expenses may be billed to the plan sponsor rather than the plan. Clients will be notified in advance of any such additional charge.

UCF does not compensate any third party for client referrals.

## **Custody**

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Clients are provided with all account information with respect to funds and securities held by a qualified custodian. UCF has arranged for the qualified custodian to provide a monthly statement of holdings to each client through an automated internet tool. In addition, UCF's reports provided to its clients recommend that the client compare the account statements received from the qualified custodian with those received from UCF.

A substantial portion of the client accounts are held in the two limited partnerships managed by UCF. The financial statements for these partnerships are audited annually by PricewaterhouseCoopers LLP. In addition, most clients hold interests in commingled vehicles for foreign equities, private equity, real estate and timber managed by third parties. All these vehicles are audited by independent public accounting firms selected by the third-party managers. Clients do not receive a quarterly statement from any qualified custodian with respect to these assets.

## **Investment Discretion**

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UCF manages most client assets on a discretionary basis. However, for certain assets held by plans sponsored by Canadian affiliates of USS, UCF's role is limited to the selection and monitoring of third-party managers. For those defined contribution plans sponsored by USS, UCF's investment advisory role is limited to recommendations for the selection of the investment options of such plans and for the ongoing monitoring of such investment options. Each plan sponsor approves an investment policy that sets investment guidelines for asset allocation, diversification requirements and credit exposure. In the case of USS plans, the Investment Committee sets these guidelines.

## **Voting Client Securities**

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UCF's Proxy Voting Policy states that all proxies will be voted in the client's best economic interests as a long-term stockholder. UCF is not reluctant to oppose recommendations by management. The obligation to vote any particular company proxy is delegated to the industry analyst responsible for recommending purchases and sales of that company. The analyst reviews proxies in the context of his knowledge of the companies and recommends a vote accordingly. UCF subscribes to a proxy advisory service as a source of information, not guidance. The vote is based on UCF's own independent analysis of what is best for the clients as shareholders. It is UCF's view that

there is little empirical evidence to support many checklist ‘best practices’ currently in vogue and analysis is done on a case-by-case basis. UCF is more concerned with the economic effects of proxy matters than with abstract principles of corporate governance.

The analyst may deviate from the guidelines set forth in the Proxy Voting Policy with the consent of an investment officer. In addition, proxy matters likely to have an immediate economic impact, e.g. tender offers, proxy battles, etc., must be discussed with an investment officer.

If a material conflict of interest is identified or arises under the circumstances with respect to a particular proxy or issue, the conflict of interest must be reported to the President and General Counsel. Generally, the fact that a company has business relationships with USS or another plan sponsor is not enough to be considered a material conflict of interest. The President and General Counsel will determine whether the conflict of interest should be disclosed or otherwise objectively addressed (through consultation with counsel, receiving an independent third party voting recommendation or other appropriate method). In any case, the decision as to how to vote such proxy will be made in accordance with UCF’s Proxy Voting Policy, without regard to the conflict of interest. A record of the voting resolution of any conflict of interest must be maintained.

A copy of the full Proxy Voting Policy is available to all clients upon request. In addition, a detailed record of all proxies voted is maintained by UCF and is available upon request.

## **Financial Information**

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UCF does not require or solicit prepayments of funds in advance from any clients and maintains its client’s asset holdings through outside custodians. UCF, as a not-for-profit corporation, has never been the subject of a bankruptcy petition. However, since UCF secures the funds needed to operate through the trusts it manages or from the clients directly, any bankruptcy petition by its clients could have the potential to impair UCF’s ability to meet its commitments to its clients. UCF has no knowledge of such petition(s) nor does it believe that bankruptcy is reasonably likely for any of its clients at this time.