

# **CITY OF KEY WEST EMPLOYEES' RETIREMENT PLAN**

## **Investment Policy Statement**

### **I. PURPOSE OF INVESTMENT POLICY STATEMENT**

The Pension Board of Trustees (the Board) maintains that an important determinant of future investment returns is the expression and periodic review of the City of Key West, Employees' Retirement Plan (the Plan) investment objectives. To that end, the Board has adopted this statement of Investment Policy and directs that it apply to all assets under their control.

In fulfilling their fiduciary responsibility, the Board recognizes that the Plan is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Plan are long-term and that investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains or losses - commensurate with the Prudent Investor Rule and any other applicable ordinances and statutes.

Reasonable consistency of return and protection of assets against the inroads of inflation are paramount. However, interest rate fluctuations and volatility of securities markets make it necessary to judge results within the context of several years rather than over short periods of five years or less.

The Board will employ investment professionals to oversee and invest the assets of the Plan. Within the parameters allowed in this document and their agreements with the Board, the investment management professionals shall have investment discretion over their mandates, including security selection, sector weightings and investment style.

The Board, in performing their investment duties, shall comply with the fiduciary standards set forth in Employee Retirement Income Security Act of 1974 (ERISA) at 29 U.S.C. s. 1104(a) (1) (A) – (C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

## II. TARGET ALLOCATIONS

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the fund. The Investment Managers are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria. The Board has established the following asset allocation targets for the total fund:

Asset Class	Target	Range	Benchmark Index
Domestic Equity	45%	<del>40</del> <ins>35</ins> % - 70%	Russell 3000
International Equity	15%	<del>50</del> % - <del>20</del> 25 %	MSCI-ACW ex. USACWI ex U.S.A.
<del>Broad MarketCore</del> Fixed Income	<del>25</del> 15%	<del>20</del> 5 % - <del>30</del> 50 %	<del>Barclays Aggregate Bloomberg U.S. Aggregate</del>
<del>Global Non-Core</del> Fixed Income*	5%	0% - 10%	<del>Citigroup World Govt. Bond</del> TBD
Real Estate*	<del>10</del> 15%	0% - <del>15</del> 25 %	NCREIF ODCE
Alternative*	<del>5</del>	<del>0</del> -15%	TBD

\*Benchmark will default to "~~broad marketcore~~ fixed income" if these portfolios are not funded. Targets and ranges above are based on market value of total Plan assets.

The Investment Consultant will monitor the aggregate asset allocation of the portfolio, and will rebalance to the target asset allocation based on market conditions. If, at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed proportionally based on the most current market values available and with reasonable notice provided to the Investment Managers. The Board does not intend to exercise short-term changes to the target allocation.

## III. INVESTMENT PERFORMANCE OBJECTIVES

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers.

### A. Total Portfolio Performance

1. The performance of the total portfolio will be measured for rolling three (3) and five (5) year periods. The performance of the portfolio will be compared to the return of the ~~utilized~~ policy indexes ~~comprised of 45% Russell 3000 Index, 15% MSCI All Country World ex U.S. Index, 25% Barclays Capital U.S. Aggregate Bond Index, 5% Citigroup World Govt. Bond Index, 10% NCREIF NFI ODCE (Open End Diversified Core Equity) Index. Outlined in the target allocations table above~~
2. On a relative basis, it is expected that the total portfolio performance will rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.
3. On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumption ~~of 7.5%~~, and provide inflation protection by meeting Consumer Price Index plus 3%. This absolute return objective will be evaluated in the context of the prevailing market conditions.

B. Equity Performance

The combined equity portion of the portfolio, defined as common stocks and convertible bonds, is expected to perform at a rate at least equal to the 75% Russell 3000 Index and 25% MSCI-All Country World ~~ex U.S.A.~~ Index. Individual components of the equity portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum. All portfolios are expected to rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.

C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability and liquidity to the total portfolio. The fixed income portion of the portfolio is expected to perform at a rate at least equal to the ~~Barclays Capital Bloomberg~~ U.S. Aggregate ~~Bond~~ Index. All portfolios are expected to rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.

~~D. Treasury Inflation Protection Security (TIPS) Performance~~

~~The overall objective of the TIPS portion of the portfolio, if utilized, is to provide inflation protection while adding stability to the total portfolio. If TIPS are utilized the strategy is expected to approximate the structure and performance of the Barclays Capital U.S Treasury TIPS Index.~~

~~E.D. Real Estate Performance~~

The overall objective of the real estate portion of the portfolio, if utilized, is to add diversification and another stable income stream to the total fund. The real estate portion of the portfolio, defined as core, open ended private real estate, is expected to perform at a rate at least equal to the NCREIF ~~NFI~~ ODCE Index and rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.

~~F.E. Alternative and Other Asset Performance~~

The overall objective of the alternative and/or "other asset" portion of the portfolio, if utilized, is to reduce the overall volatility of the portfolio and enhance returns. This portion of the portfolio will be measured against an appropriate benchmark, ~~which will be outlined in the Investment Manager addendum at the time of investment.~~

## IV. INVESTMENT GUIDELINES

A. Authorized Investments

Notwithstanding any limitation in prior city ordinances to the contrary, all monies paid into or held in the fund may be invested and reinvested in such securities, investment vehicles or property wherever situated and of whatever kind, as shall be approved by the board including, but not limited to, common or preferred stocks, bonds, and other evidences of indebtedness or ownership.

In addition, the board may, upon recommendation by the board's investment consultant, make investments in group trusts meeting the requirements of Internal Revenue Service Revenue Ruling 81-100 or successor rulings or guidance of similar import. While any portion of the assets of the fund are invested in such a group trust, such group trust is itself adopted as a part of the system or plan, subject to the following guidelines and limitations:

1. Equities:
  - a. Must be traded on a national exchange or electronic network; and
  - b. Not more than 5% of the Plan's assets, at the time of purchase, shall be invested in the common stock, capital stock or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company; and
2. Fixed Income:
  - a. All direct fixed income securities issued by any corporation organized under the laws of the United States, any state or organized territory of the United States and District of Columbia; shall have a rating by at least two nationally recognized ratings services in any one of the four highest classifications approved by the comptroller of the currency for the investment of funds of national banks or, if only one nationally recognized ratings service shall rate such obligations, such ratings service must have rated such obligation in any one of the three highest rating classifications as set forth in this subsection; and
  - b. The value of bonds issued by any single corporation shall not exceed 5% of the total fund; and
  - c. For purposes of this policy, core fixed income will generally include a mix of U.S. dollar denominated investment grade fixed income securities, particularly U.S. government, corporate and securitized assets, including commercial mortgaged-back securities, residential mortgaged-back securities and asset-back securities.
  - b.d. For purposes of this policy, non-core fixed income will include any mix of fixed income securities not described above as core fixed income.
3. Money Market:
  - a. The money market fund or STIF options provided by the Plan's Custodian; and
  - b. Have a minimum rating of A1/P1, or its equivalent, by a major credit rating service.
4. Real Estate
5. 4.
  - a. For purposes of this policy, real estate assets will generally include funds that primarily invest in office, multifamily, industrial and retail properties.
5. Alternative
  - a. For purposes of this policy, alternative will generally include investments not considered public equities or fixed income securities or direct private real estate
6. Pooled Funds:

Investments made by the Board may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and private equity. Pooled funds may be governed by separate

documents which may include investments not expressly permitted in this Investment Policy Statement. In the event of investment by the Plan into a pooled fund, the prospectus or governing policy of that pooled fund, as updated from time to time, shall be treated as an addendum to this Investment Policy Statement. The Investment Consultant shall periodically review with the Board any material changes in the prospectus or governing policy of a pooled fund.

**B. Trading Parameters**

When feasible and appropriate, all securities shall be competitively bid. Except as otherwise required by law, the most economically advantageous bid shall be selected. Commissions paid for purchase of securities must meet the prevailing best-execution rates. The responsibility of monitoring best price and execution of trades placed by each Investment Manager on behalf of the Plan will be governed by the Portfolio Management Agreement between the Plan and the Investment Managers.

**C. Limitations**

1. Investments in corporate common stock and convertible bonds shall not exceed seventy-five (75%) of the market value of Plan assets.
2. Foreign securities (regardless of asset class) shall not exceed twenty-five percent (25%) of the market value of Plan assets. For the purposes of this Investment Policy Statement, foreign securities are defined as bonds, stocks, or other evidences of indebtedness issued or guaranteed by a company that is not organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia.
3. All equity and fixed income securities must be readily marketable. Commingled funds must be independently appraised at least annually.

**D. Absolute Restrictions**

No investments shall be permitted in:

1. Any investment not specifically allowed as part of this policy.
2. Illiquid investments, as described in Chapter 215.47, Florida Statutes.

**V. COMMUNICATIONS**

- A. On a monthly basis, the Custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.
- B. On a quarterly basis, the Investment Managers shall provide a written report affirming compliance with the security restrictions of Section IV (as well as any provisions outlined in the Investment Manager's addendum). In addition, the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of the Plan. Written reports shall be delivered to the Board within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the City, and shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Board of any significant market related or non-market related event, specifically including, but not

limited to, any deviation from the standards set forth in Section IV or their Investment Manager addendum.

- C. If an Investment Manager owns investments, that complied with section IV at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with the prudent man standard of care, but no additional investment may be made unless authorized by law or ordinance. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.
- D. The Investment Consultant shall evaluate and report on a quarterly basis the rate of return net of investment fees and relative performance of the Plan.

- E. The Board will meet periodically to review the Investment Consultant performance report. The Board will meet with the Investment Manager and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics, and other pertinent matters affecting the Plan on a periodic basis.
- F. At least annually, the Board shall provide the Investment Managers with projected disbursement needs of the Plan so that the investment portfolio can be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To this end the Investment Managers should, to the extent possible, attempt to match investment maturities with known cash needs and anticipated cash-flow requirements.

## VI. COMPLIANCE

- A. It is the direction of the Board that the Plan assets are held by a third party Custodian, and that all securities purchased by, and all collateral obtained by the Plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or their designee. Securities transactions between a broker-dealer and the Custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis to insure that the Custodian will have the security or money in hand at conclusion of the transaction.
- B. The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.
- C. At the direction of the Board, operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the Plan sponsor, to the extent possible.
- D. Each member of the Board shall participate in a continuing education program relating to investments and the Board's responsibilities to the Plan. It is suggested that this education process begin during each Board member's first term.
- E. With each actuarial valuation, the Board shall determine the total expected annual rate of return for the current year, for each of the next several years, and for the long term thereafter. This determination

shall be filed promptly with the Department of Management Services, the Plan's sponsor and the consulting actuary.

F. The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. Each Investment Manager shall provide the Board with a copy of their proxy voting policy for approval. On a regular basis, at least annually, each manager shall report a record of their proxy vote.

## **VII. CRITERIA FOR INVESTMENT MANAGER REVIEW**

The Board wishes to adopt standards by which judgments of the ongoing performance of an Investment Manager may be made. If, at any time, any three (3) of the following is breached, the Investment Manager may be warned of the Board's serious concern for the Plan's continued safety and performance. If any five of these are violated, the Investment Consultant may recommend an Investment Manager evaluation for that mandate.

- Four (4) consecutive quarters of relative under-performance versus the benchmark
- Three (3) year trailing return below the top 40<sup>th</sup> percentile within the appropriate peer group and under performance versus the benchmark
- Five (5) year trailing return below the top 40<sup>th</sup> percentile and under performance versus the benchmark
- Three (3) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio
- Five (5) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio
- Style consistency or purity drift from the mandate
- Management turnover in portfolio team or senior management
- Investment process change, including varying the index or benchmark
- Failure to adhere to the Investment Policy Statement, Investment Manager Addendum or other compliance issues
- Investigation of the firm by the Securities and Exchange Commission (SEC) or other regulatory agency
- Significant asset flows into or out of the company or strategy
- Merger or sale of firm
- Fee increases outside of the competitive range
- Servicing issues – key personnel stop servicing the account without proper notification
- Failure to attain a 60% vote of confidence by the Board

Nothing in this section shall limit or diminish the Board's right to terminate the Investment Manager at any time for any reason.

## **VIII. APPLICABLE CITY ORDINANCES**

If at any time this document is found to be in conflict with the City Ordinances or applicable Florida Statutes, the Ordinances and Statutes shall prevail.

## **IX. REVIEW AND AMENDMENTS**

It is the Board's intention to review this document at least annually, subsequent to the actuarial report, and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified in writing. By initialing and continuing acceptance of this Investment Policy Statement, the Investment Managers concur with the provisions of this document. By signing this document, the Chairman attests that this policy has been recommended by the Investment Consultant, reviewed by the Plan's legal counsel for compliance with applicable law, and approved by the Board.

## **X. FILING OF THE INVESTMENT POLICY**

Upon adoption by the Board, the Investment Policy Statement shall be promptly filed with the Florida Department of Management Services, the City, and the Plan's actuary. The effective date of the Investment Policy Statement shall be 31 calendar days following the filing date with the City.

### **CITY OF KEY WEST EMPLOYEES' RETIREMENT PLAN**

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Chairman, Board of Trustees

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Date