

INVESTMENT POLICY For Other Post-Employment Benefits Trust (OPEB)



Effective – March X, 2015

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Investment Policy – OPEB

City of Fort Lauderdale, Florida

I. OVERVIEW AND PURPOSE

This investment policy applies to all accumulated assets for the City of Fort Lauderdale Other Post-Employment Benefits Trust (“Trust”) created by the Fort Lauderdale City Commission by Resolution No. 14-157, its consultants, agents, investment managers, advisory boards, Trustees, Trust Administrator and assigned staff.

The purpose of this document is to provide the Trust Administrator with a set of objectives, parameters and guidelines to assist in the administration of the Trust; to guide investment managers in structuring portfolios consistent with desired performance result and acceptable risk levels; to assure the assets are managed in a prudent fashion and to serve as the framework for all investment activities related to the Trust.

II. INVESTMENT POLICY AND OBJECTIVES

The primary obligations of the plan’s governing body in investing assets are to do so for the exclusive benefit of the plan’s beneficiaries. Emphasis must be placed upon the consistent protection of the fund’s assets and growth performance, i.e., the achievement of adequate investment growth must not be at the expense of the protection of the assets over the investment horizon. Specific objectives of investment activities carried out by the Trust Administrator include the following:

- A. The expected annual rate of return for the portfolio will be equal to the actuarial assumption, until amended by the OPEB Board of Trustees (“Board”).
- B. Individual investment managers will not be measured against the aggregate fund objective stated in section II. A., but will be compared to appropriate market indices and the performance of other managers who utilize a similar investment style.

1. AUTHORITY AND OVERSIGHT PROCEDURES

- A. The City Commission serves as the Board and has delegated the responsibility for conducting investment transactions with the Trust Administrator. The Trust Administrator will provide investment information to the Board concerning investment decisions, including rebalancing asset allocation and portfolio performance on a quarterly basis.
- B. The Trust Administrator shall consult with an investment advisor for professional advice with respect to the investments of the Trust. All assets will be held by a third party custodian as selected by the Trust Administrator. The advisor will provide performance analysis that will include, but not be limited to, a strategic analysis including a report on asset allocation, risk analysis, and appropriate, if any, changes to the percentages therein. This study will be used to assist the Trust Administrator in the determination of the appropriate investment allocation to maximize the return and minimize the risk to the assets of the Trust.

2. STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the “Prudent Person” standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectation are reported to the Director of Finance in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The “Prudent Person” rule states the following:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.” 218.415(4) F.S.

While the standard of prudence to be used by investment officials who are officers or employees is the “Prudent Person” standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of “Prudent Expert”. The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

3. ETHICS AND CONFLICTS OF INTEREST

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City’s investment program.

III. INVESTMENT GUIDELINES

1. AUTHORIZED INVESTMENTS

Investments consistent with the objectives contained in Section II, herein, other than those specifically prohibited shall be authorized. Equities will comprise a diversified portfolio of domestic small, mid and large cap equity funds, Real Estate Investment Trusts (“REITs”), and international equity funds. At the time of purchase, the following fixed income investments shall carry a minimum rate as indicated:

- Commercial paper - A1/P1
- Banker's acceptances - AA
- Nonnegotiable Certificates of Deposit - A1/P1
- Collateralized Mortgage Obligations - AAA
- Corporate fixed income securities - A or better
- Municipal bonds – at least A

2. MATURITY AND LIQUIDITY

The OPEB trust assets shall provide sufficient liquidity for payment of direct medical benefits and expenses.

3. PORTFOLIO COMPOSITION, RISK AND DIVERSIFICATION

Assets of the OPEB Trust Fund shall be invested in a broadly diversified portfolio consisting of equity, debt, and cash equivalent securities. The portfolio shall also be structured in a manner to provide diversification within each asset class and be allocated within the ranges specified below:

	Range	Target
Equities	0%-70%	60%
Fixed Income	0%-100%	40%
Cash and Cash Equivalents	0%-100%	<5%

The Trust Administrator is authorized by this policy to make asset allocation decisions to reallocate or redirect either contributions or investments held by the OPEB Trust Fund in order to take advantage of changing market conditions. Any move that will cause the allocation of the investment classes to vary from the above allocation percentages of any asset class requires approval by the OPEB Board of Trustees.

The following are prohibited purchases/transactions:

1. More than 5% of the total equity allocation invested in individual equity securities of any one company at market value
2. More than 5% of the total debt allocation invested in debt instruments in any single issuer with the exception of US Treasuries and agencies
3. Short sales
4. Margin or leveraged purchases
5. Commodities
6. Real estate (with the exception of REITs)
7. Art objects or collectables
8. Options
9. Warrants
10. Derivative investments
11. Oil and Gas Leases
12. Hedge Funds
13. Private Equity Funds
14. Precious Metals
15. Privately negotiated investment agreements with financial institutions
16. Other investments classified as 'alternative'

4. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Purchases and sales of authorized investments will only be made through financial institutions that are qualified as public depositories by the Chief Financial Officer of the State of Florida **or** are “primary dealers” as designated by the Federal Reserve Bank of New York **or** are broker/dealers that qualify under Securities and Exchange Commission, **or** by direct purchases of an approved open-ended mutual fund family.

The Board must approve all brokers and dealers who transact trades with the Trust. All brokers and dealers who transact trades with the OPEB Trust Fund must provide the Trust Administrator with the following:

- A. Proof of National Association of Security Dealers certification,
- B. Proof of state registration, when required, and
- C. Receipt confirmation of OPEB Investment Policy.

The Trust Administrator will review the list of approved qualified depositories, primary dealers, brokers/dealers at least annually.

5. SAFEKEEPING AND CUSTODY

All securities purchased by the Trust Administrator shall be properly designated as an asset of the OPEB Trust Fund and held in safekeeping by a third party custodial bank, chartered by the United States Government or the State of Florida, and/or a financial institution approved by the National Association of Security Dealers. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the Board of Trustees or Trust Administrator.

The Board of Trustees or the Trust Administrator will execute third party custodial agreements with banks or financial institutions. Such agreements will include details as to the responsibilities of each party, the costs to be borne by each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transaction costs, and procedures in case of unforeseen circumstances.

6. BID REQUIREMENTS FOR DEBT INSTRUMENTS

After the Trust Administrator and/or the investment manager has selected one or more optimal types of investments based on maturity date(s) to meet cash flow needs and market conditions, a minimum of three qualified brokers and/or dealers will be contacted and asked to provide bids on the securities in question.

In most situations the competitive bid process shall be utilized, except when securities are purchased as an initial offering. The investment manager will choose the appropriate brokers or dealers from among those on the approved broker/dealer list based on expertise, competitiveness and the ability to execute the transaction and deliver the securities on a timely basis. A minimum of three (3) bids will be obtained.

- A. Bids will be held in confidence until the best bid is determined and awarded,

- B. Documentation will be retained for all bids, with the winning bid clearly identified,
- C. If for any reason the highest bid (on sales of investments) or the lowest bid (on purchases of investments) is not selected, then the reasons leading to that decision will be clearly documented.

7. PERFORMANCE MEASURES

The OPEB Board of Trustees will meet with investment managers at least annually to review portfolio performance. The Trust Administrator will review results quarterly to confirm the managers' adherence to the policy guidelines; compare the managers' results with funds using similar policies and benchmarks; and identify risks and opportunities occurring in the equity and debt markets.

The following events indicate risk to the safety and performance of the Trust. Failure to appropriately address risk may result in termination of the Manager.

- A. Consistent performance below the 50th percentile in the specified universe for three consecutive quarters.
- B. Consistent under-performance of the stated target index for three consecutive quarters.
- C. Material changes in the managers' organization including personnel, ownership, acquisitions or losses of major accounts.
- D. Substantial changes in basic investment philosophy.
- E. Failure to observe any guidelines as stated in this policy.

IV. INTERNAL CONTROLS

The OPEB Board of Trustees shall adopt a written set of internal controls and operational procedures to be implemented by the Trust Administrator, which said controls are designed to protect the OPEB funds and ensure proper accounting and reporting of securities transactions. Such internal controls shall consist, at a minimum, of the following:

- A. All securities purchased or sold will be transferred only under the "delivery versus payment" (DVP) method to ensure that funds or securities are not released until all criteria relating to the specific transaction are met,
- B. The Trust Administrator is authorized to accept, on behalf of and in the name of the City of Fort Lauderdale OPEB Trust Fund, bank trust receipts or confirmations as evidence of actual delivery of the obligations or securities in return for investment of funds,
- C. Trust receipts or confirmations shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of the City of Fort Lauderdale OPEB Trust, and
- D. The written system of internal controls and operational procedures shall be subject to review by the external auditors as part of the annual financial audit.

V. *REPORTING*

Quarterly reports concerning the investment activities, investment portfolio and performance will be submitted to the Board of Trustees and placed on the agenda of the City Commission. Other information may include recent market conditions, economic developments, and anticipated investment conditions.

VI. *CONTINUING EDUCATION*

Given the often complex and diverse nature of investments, and the importance of balancing the safety and liquidity of investments against the desire to maximize interest earnings, staff responsible for making investment decisions must annually complete sufficient continuing education as specified in Section 218.415(14), Florida Statutes.

VII. *POLICY REVIEW*

Periodic reviews of the Policy will be made by the Trust Administrator to evaluate its appropriateness. Any modification of policy guidelines shall be approved by the OPEB Board of Trustees and acknowledged in writing (Appendix A) by the investment managers.

Appendix A

Investment Manager's Acknowledgment

I, the undersigned, acknowledge that I have received the investment policy for City of Fort Lauderdale OPEB Trust Fund, dated_____. I affirm that I have read and understand said Policy, and do hereby agree to abide to the guidelines expressed in the Policy.

Name of Firm

Signed

Date
