

INVESTMENT POLICY

Other Post-Employment
Benefits Trust (OPEB)

CITY OF FORT LAUDERDALE

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DEFINITIONS

Actuary – The actuary assembles and analyzes facts and estimates risks and returns to make financial planning decisions relating to the funding requirements of the OPEB Trust.

Annualized Returns – Annualized returns are a statistical measure in which returns covering periods greater than a year are converted to cover the most recent preceding twelve, thirty-six, sixty months, etc.

Asset Allocation – The division of the total portfolio into different percentages for each asset is called its asset allocation.

Benchmark – A designated pool of representative securities against which an investment product is measured.

Benefit – Any post-employment benefit other than pension plan benefits, including but not limited to medical, prescription drug, dental, vision and life insurance.

Cash-Equivalents – Short-term, high quality securities that typically mature within one year and produce a rate of return reflective of money market interest rates. Examples include U.S. Treasury bills, commercial paper, and repurchase agreements.

Custodian – A financial institution that provides safekeeping of securities, transaction processing, and/or portfolio reporting services.

Duration – A measure of interest-rate risk and price sensitivity for a fixed income portfolio.

Fixed Income Securities – Investment instruments that promise to pay a future return to the investor which is set in advance, including bonds (which usually pay a fixed coupon interest rate every six months), mortgage securities, and guaranteed investment contracts (GICs).

Index Fund – A mutual or trust fund with a portfolio consisting of securities that are held in direct proportion to a given market index. In the stock market, many index funds seek to replicate the performance of the Standard & Poor's 500 index, for example, by purchasing stocks in the exact ratio used by Standard & Poor's in its index. In the bond market, various index funds seek to hold different fixed-income securities in proportions that reflect the universe of outstanding securities. An index fund can be defined as a mutual fund or an exchange traded fund with specific rules of construction that are adhered to regardless of market conditions.

Investment Consultant – The Consultant assists in developing an investment policy, asset allocation strategy and Manager structure. The Consultant will act as a fiduciary with regard to the oversight of the OPEB Trust assets.

Investment Manager – Buys and sells securities or other assets for the Plan. Also known as a Money Manager or Portfolio Manager.

Peer Rank Evaluation – Indicates a fund’s ranking within its category.

Prudent Investment Clause – A policy that requires that investments be made by persons with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.

Total Return – Calculates the actual performance of a fund over a specific period and includes the reinvestment of all income and capital gains distributions over that time period. Gross total return is inclusive of all fees. Net total return excludes all fees and commissions, including, but not limited to those paid to brokers and managers.

Trust Administrator – Director of Finance employed by the City, or designee.

SCOPE

This investment policy applies to the investment activities of the Other Post-Employment Benefits Trust (“OPEB Trust”) for employees of the City of Fort Lauderdale. The City Commission serves as the OPEB Board of Directors (“Board”) and has delegated the responsibility for conducting investment transactions with the Trust Administrator (“TA”). The purpose of this policy is to provide the TA with guidance for the administration of the Trust.

OBJECTIVES

The long-term investment objective of the OPEB Trust is to provide for participant benefit needs. The goal of the OPEB Trust is to use a passive management strategy to invest in low-cost funds.

The TA shall review and monitor the actuarial assumptions to provide for participant benefits’ needs and make changes as necessary upon receipt of the actuarial report.

Safety

While the long-term investment objective of the OPEB Trust is to achieve growth to meet investment objectives, the preservation of principal is equally important. Each investment transaction shall seek to avoid capital losses from securities defaults or erosion of market value. The objective will be to mitigate credit risk and interest rate risk. The TA will minimize the risk of loss due to the failure of the security issuer or backer by limiting

fixed income investments to an overall average credit rating of A or better.

To the extent reasonably feasible, with regards to mutual funds, the TA shall seek to avoid the losses when selling mutual funds.

Liquidity The OPEB Trust investment portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio to match investment maturities with known cash needs and anticipated cash flow requirements.

Yield The OPEB Trust investment portfolio shall be designed to attain the assumed rates of return taking into account the OPEB Trust's investment risk and liquidity needs and costs. The most recent actuarial review has established a rate of return at 7%. The TA recognizes that in a diversified portfolio, occasional measured losses because of market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been achieved.

PERFORMANCE MEASUREMENTS

The TA, with the guidance of the Investment Consultant ("Consultant") will recommend performance measures that may be used to benchmark the investment classes and, where appropriate, individual Investment Manager(s) ("Managers"). The TA shall review the specific benchmarks relative to the asset classes and asset allocation at least annually and with the guidance of the Consultant and revise as needed. The fund's annualized returns will be reviewed quarterly and compared to established and appropriate benchmarks. With the exception of short term market fluctuations and in consideration of overall long term goals, any significant variances between benchmarks and actual rate of return will be considered by the TA and investments will be modified as appropriate to the extent reasonably possible.

INVESTMENT AND FIDUCIARY STANDARDS

Prudence The standard of prudence to be used by the TA shall be a Prudent Person standard and shall be applied in the context of administering an overall portfolio. 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. Any person or firm retained concerning the investment, monitoring, or advisement of the Trust's assets will be held to the higher standard of Prudent Expert. Such person or firm will 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.

The TA designated pursuant to this investment policy shall be relieved of personal liability in accordance with the Florida Statutes.

**Ethics and
Conflicts of
Interest**

The TA designated pursuant to this investment policy shall refrain from personal business activities, other than routine banking relations, that conflict with proper execution of the investment program or impair their ability to make impartial investment decisions. Any material financial interests that may be related to the performance of the OPEB Trust's investment portfolio shall be disclosed promptly to the Board. Any revenue sharing or commissions between the aforementioned are prohibited.

Legality

The OPEB Trust shall invest its funds as authorized by this Policy.

**Delegation
and Authority**

The Board has designated the TA to formalize the efforts of administering the OPEB Trust, per Policy and Procedure.

**Use of
Investment
Consultant**

The TA shall utilize a Consultant to assist in strategic investment planning of the OPEB Trust. This includes providing assistance in maintaining an investment policy, asset allocation strategy and Manager structure. The Consultant will act as a fiduciary with regard to the oversight of the OPEB Trust assets.

**Use of
Investment
Managers**

The TA shall utilize Investment Manager(s) to invest the assets of the OPEB Trust. The Managers should feel free to recommend appropriate changes to the investment policy to the TA and/or consultant for further consideration. The Managers will act as fiduciaries with regard to the management of the OPEB Trust assets.

To the extent reasonably feasible, the following are general guidelines the TA will follow for the selection of a Manager:

1. Utilize a competitive process for selection when feasible.
2. State the expected responsibilities of the Manager in writing.
3. Determine the criteria to be used by the TA for the selection process.

Termination of Investment Manager – The TA may terminate an Investment Manager at any time for any reason, including, but not limited to, the following:

1. Qualitative changes – personnel changes or other organizational issues of the firm;

2. Quantitative changes – underperformance relative to investment objectives and style deviations;
3. Policy issues – violation of investment policies or legal issues; and
4. Communication – failure to adhere to reporting requirements.

Fiduciary Standards

The TA, Consultant and Managers, in performing the investment duties, shall comply with fiduciary standards. In case of conflict with any law authorizing investments, investment and fiduciary standards this policy shall prevail.

The TA, Consultant and Managers shall discharge the duties with respect to the OPEB Trust solely in the interests of the participants and beneficiaries and

- (A) For the exclusive purpose of :
 - (i) Providing benefits to participants and beneficiaries and
 - (ii) Defraying reasonable expenses of administering the OPEB Trust;
- (B) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
- (C) By diversifying the investments of the OPEB Trust so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

AUTHORIZED INVESTMENTS

The TA shall be authorized to invest and reinvest OPEB Trust assets in any lawful investment provided by Florida Statute Section 215.47, provided such investments are consistent with this policy.

If the OPEB Trust has investments that either exceed the applicable limit or do not satisfy the applicable investment standard, such excess or investment not in compliance with the policy may be continued until such time as it is economically feasible to dispose of such investment. However, no additional investment may be made in the investment category which exceeds the applicable limit, unless authorized by law or ordinance.

Listed below are investments authorized by the TA and Managers:

1. Cash Equivalents:

Cash equivalents include all money market instruments with a maturity of one year or less. Cash equivalents may be used to meet liquidity requirements or to serve as a temporary investment when

other asset classes appear unattractive. The asset allocation guidelines do not include a separate target because cash held by a particular Manager will be viewed as belonging to the asset class in which the Manager primarily invests. In the event a balanced Manager is retained, cash equivalents will be considered a part of the overall fixed income category.

2. Negotiable direct obligations, or obligations, the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to, the following:

- A. Cash Management Bills
- B. Treasury Securities – State and Local Govt. Series (SLGS)
- C. Treasury Bills
- D. Treasury Notes
- E. Treasury Bonds
- F. Treasury Strips

3. Obligations issued or guaranteed by United States Government, federal agencies, and government-sponsored corporations.
4. Non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this State and/or in national banks organized under the laws of the United States and doing business and situated in this state, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes and provided that the bank is not listed with any recognized credit watch information service.

5. Mutual Funds:

Domestic and International Stock Portfolios including marketable mutual funds, common stocks, preferred stocks convertible into common stocks, and fixed income securities convertible into common stocks are the only permissible equity investments. Securities denominated in other than the US dollar are not permissible investments. Where common trust funds or mutual funds are used, appropriate guidelines as stated in the prospectus or governing document will apply. The Consultant or Investment Managers shall assist the TA in determining the compliance of underlying investments of mutual funds, with the investment policy.

Fixed Income Portfolios: Acceptable asset categories include money market securities, US Governments, its agencies and governmental sponsored entities. A minority portion of a fixed

income portfolio may be invested in below investment grade securities. All securities may be purchased without regard to the stated final maturity date or average life of the security. The duration is the measure of the price sensitivity of the portfolio and the interest rate risk control. The Consultant or Investment Managers shall assist the TA in determining the compliance of underlying investments of mutual funds, with the investment policy.

6. Equity investments shall be limited to no more than 75% of the total fund. The fund shall not invest in individual common stock. No more than 25% of assets shall be invested in corporate obligations and securities of a foreign corporation or a foreign commercial entity having its principal office located in any country other than the United States of America or its possessions or territories, not including United States dollar-dominated securities listed and traded on a United States exchange.
7. A majority of fixed income investments should be limited to investment grade securities of the US Treasury, and government agencies and government-sponsored entities are permissible investments. A minority portion of assets of funds may be invested in below investment grade securities at any specific time.
8. Fixed income purchases should be limited to readily marketable securities.
9. Repurchase agreements with major banks otherwise eligible for investment and “primary” government securities firms, fully secured by U.S. government or federal agency collateral provided a Master Repurchase Agreement is executed.

MATURITY AND LIQUIDITY

The investment portfolio must be constructed in such a manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements. The anticipated cash flow requirements should utilize the projected benefit payment amounts as shown in the actuarial valuation report.

PORTFOLIO COMPOSITION

This policy establishes guidelines for investments and limits on security issues, issuers, and maturities. The Board and the TA have demonstrated a strong preference for passive investment management. These guidelines may change based on Board interests, future actuarial findings and cash

flows. The purpose of strategic asset allocation is to provide an optimal mix of investments that has the potential to produce the desired returns, minimize risk, minimize costs, and meet current and future liabilities. The TA shall recommend a target allocation for each asset class as well as percentage ranges for each class of investment with the advice of the Consultant. Within sixty days of receipt of the annual actuarial report the TA will review the target asset allocations with the guidance of the Consultant and will recommend revisions to the allocations if necessary.

The TA will review the portfolio's asset allocations at least annually to ensure the average allocation over time is within the target allocation limits established. Should any portion of the portfolio asset allocation exceed the limits established, the TA along with the Consultant will rebalance assets back to the target mix over a reasonable period of time.

RISK AND DIVERSIFICATION

A. Risk Assessment

Acceptable risk determination shall be consistent with funding objectives and requirements of the OPEB Trust. The TA has determined that risk tolerance shall be based on long-term horizons and commensurate funding obligations. The TA understands prevailing theory and historical data regarding capital market relationship between the level of risk assumed and the level of return that can be expected in an investment program. The TA recognizes that risk/return variables also apply to Benefit costs and funded status.. The TA has evaluated current investment and actuarial plan data to determine acceptable risk:

1. Historic capital market risk/return relationship
2. Tolerance for risk
3. Time horizon
4. Business and financial fundamentals
5. Funding status

B. Investment guidelines and monitoring will provide controls for identifying and limiting risk of loss from turnover, and from over concentration of assets invested in a specific maturity, with a single issuer, in like instruments, or dealers or through utilization of intermediaries for purchase and sale of investments.

C. Risk and diversification strategies shall be reviewed and revised, if necessary, on a regular periodic basis in light of the current and projected market condition and the OPEB Trust needs.

D. Assets in the OPEB Trust shall be diversified among equities, fixed income, and other securities to minimize overall portfolio risk

consistent with the level of expected return and thereby improve the long-term return potential of the OPEB Trust's assets.

SECURITY TURNOVER

While the TA is sensitive to excessive turnover, there shall be no specific limitation in this regard, recognizing the importance of providing flexibility to the Manager(s) to adjust the asset mix in changing market conditions. However, managers should minimize turnover to maintain low costs consistent with risk/return parameters.

EXPECTED ANNUAL RATE OF RETURN

The long-term investment objective of the OPEB Trust is to the preservation of principal and to meet the actuarial return assumption as revised with each annual actuarial report. The TA shall review and monitor this rate upon receipt of the annual actuarial report. The current rate is 7%.

On an annual basis, the TA shall determine the total expected annual rate of return for the current year. The TA shall use this determination only to notify the Board, the plan's sponsor, and consulting actuary of material differences between the total expected annual rate of return and the actuarial assumed rate of return.

SAFEKEEPING AND CUSTODY (THIRD PARTY CUSTODIAL AGREEMENT)

All fixed income securities owned by the OPEB Trust shall be held in safekeeping by a third party as agent for the OPEB Trust under the terms of a custodian agreement or Bond Market association Master Repurchase Agreement. All securities purchased and/or collateral obtained shall be properly designated as an asset of the OPEB Trust and held in an account separate and apart from other assets held by the third party and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the TA.

All securities transactions must be made on a "delivery versus payment" basis, if applicable, to ensure that the third party acting as agent will have the security or money, as appropriate, in hand at the conclusion of the transaction.

MASTER REPURCHASE AGREEMENT

The TA will require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the Master Purchase Agreement.

INTERNAL CONTROLS

The TA shall establish and monitor a set of written internal controls designed to protect the OPEB Trust's funds and ensure proper accounting and reporting of the securities transactions. The controls shall be reviewed by independent certified public accountants as part of any financial audit periodically required. The internal controls should be designed to prevent losses of funds which might arise from fraud, error, misrepresentation by third parties, or imprudent actions by the TA or employees.

CONTINUING EDUCATION

The TA or employees shall attend, on an annual basis continuing education to meet minimum standard requirements.

REPORTING

1. The TA shall receive monthly statements from the custodian that include a detailed description of:
 - a. Holdings by asset class, valued at cost and market;
 - b. Individual asset holdings, valued at cost and market;
 - c. Asset purchases and sales;
 - d. Investment income, gross and net of fees;
 - e. Deposits and withdrawals;
 - f. expenses paid on behalf of the OPEB Trust and
 - g. Commission expenses incurred, listed by broker.
2. Upon reasonable notice to the custodian by the TA, statements shall include such additional specific information as may be specified.
3. The Consultant will provide a performance review quarterly that will include aggregate holdings in each asset class, time-weighted returns and investment performance compared to appropriate benchmarks. The TA shall meet at least quarterly with the Consultant to review the performance of the OPEB Trust.
4. The Managers will keep the TA and the Consultant apprised of any material changes including, but not limited to, the following areas: ownership, organizational structure, financial condition, senior staffing changes, investment outlook, and investment strategy and asset allocation.
5. The TA shall meet at least annually with its Actuary to review the annual actuarial report.