

**CITY OF TALLAHASSEE  
PENSION INVESTMENT POLICY  
October 17, 2018**

City Commission Policy 236

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## **CITY OF TALLAHASSEE PENSION FUND INVESTMENT POLICY STATEMENT**

### **236.01 AUTHORITY**

The Charter of the City of Tallahassee, Florida, establishes a Pension Plan (the Plan) covering all employees of the City. The Plan is qualified under the Internal Revenue Code as a 401(a) plan.

Section 65 of the City Charter creates the Sinking Fund Commission (the Commission), a body charged with the responsibility of investing the assets of the City's Pension Plan. The Commission is made up of the elected Mayor, the four (4) elected City Commissioners and three (3) responsible members of the local business community appointed by the City Commission. The Mayor serves as Chairman of the Commission.

The three (3) appointed members of the Commission comprise the Investment Advisory Committee, created by and defined under the Non-Pension Investment Policy of the City, whose responsibilities with respect to the Plan, in addition to those as members of the Commission, include:

- 1) Meeting with the City Treasurer-Clerk on at least a quarterly basis to review the performance of the Plan.
- 2) Making recommendations to the full Commission related to any aspect of the investment of the assets of the Plan, as they deem necessary.
- 3) Immediately notifying the City Treasurer-Clerk in the event any information comes to their attention that may negatively impact any of the investment managers hired by the City to manage the assets of the Plan, or any of the individual investments that may be held by any manager on behalf of the City.

City of Tallahassee Resolution 86-R-1454, passed and adopted by the City Commission on November 25, 1986, provides for the defense and indemnification of any committee member who is made a party to any suit or proceeding, other than by an action of the City, or against whom a claim is asserted by reason of their actions taken within the scope of their service as an appointed member of this committee. Such indemnity shall extend to judgments, fines, and amounts paid in settlement of any such claim, suit, or proceeding, including any appeal thereof. This protection shall extend only to members who have acted in good faith and in a manner, which they reasonably believe to be in, or not opposed to, the best interest of the City of Tallahassee.

In accordance with Section 51 of the City Charter, the responsibility for administering all the investment programs of the City resides with the City Treasurer-Clerk (or his designee). As such, it shall be his responsibility to perform all administrative and operational functions necessary to the efficient, effective and prudent management of the assets of the Plan, including the selection of consultants, custodians and other service providers as may be needed to carry out the investment of the Plan's assets. The City Treasurer-Clerk serves as the City's contact with the investment managers, custodians, investment consultant and any other service provider as might be employed on behalf on the Plan's assets. Additionally, he is responsible for staffing the Investment Advisory Committee and assisting them in carrying out their responsibilities as defined above. No person may engage in any investment on behalf of the Plan, except as authorized by the City Treasurer-Clerk.

### **236.02 FIDUCIARY STANDARDS**

The standard of care which shall be exercised in investing the assets of the Plan shall be that set forth in Employee Retirement Income Security Act of 1974 at 29 U.S.C. Section 1104 (a) (1) (A) (c). This standard, the Prudent Person Standard of Care, states that a fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries (a) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of

administering the plan; (b) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man 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; and, (c) by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to so diversify.

### **236.03 GOALS AND PURPOSE**

The sole goal of the Pension Fund investment program is to maximize investment return, net of fees, at an acceptable level of risk.

The Sinking Fund Commission has established herein investment policies and portfolio guidelines to assist the City Treasurer-Clerk in the administration of the assets of the Plan; to guide the investment managers in structuring portfolios consistent with the City's desired performance results at an acceptable level of risk; and to assure that Plan assets are managed in a prudent fashion.

The Sinking Fund Commission, based on their evaluation of the Plan's liabilities and future cash flow requirements, on October 17, 2018 adopted an asset allocation model that reflects a total portfolio risk level considered acceptable for the Plan. The level of acceptable risk has been determined to equal the risk of a market portfolio composed as follows:

- 36% in Domestic Equities
- 10% in International Equities
- 5% in Emerging Markets Equities
- 19% in Domestic Bonds
- 15% in Real Estate
- 5% in Private Equity
- 5% in Private Credit
- 5% in Timber

Given this risk level, the aggregate portfolio is expected to earn a rate of return that meets or exceeds the long-term investment return assumption used in the Pension Plans' actuarial valuation.

Pension Plan assets are to be broadly diversified in order to minimize the risk of material losses. This diversification is primarily accomplished through the selection of a broad asset mix and investment managers. The City Treasurer-Clerk, in consultation with the Investment Consultant and the Investment Advisory Committee, will select investment managers and determine asset allocations and appropriate benchmarks for each investment manager.

### **236.04 INTERNAL CONTROLS**

The Treasurer-Clerk shall establish, and document in writing, a system of internal controls to insure that the financial assets of the plan are properly safeguarded, managed, and accounted for. These internal control procedures shall address, at a minimum:

- 1) Separation of incompatible functions;
- 2) Proper design and maintenance of documentation and records;
- 3) Controlling access to assets;
- 4) Recording and reporting;
- 5) Method of selection and hiring of external managers; and
- 6) Process for evaluating performance.

## 236.05 ASSET ALLOCATION

The City's asset allocation strategy provides for the diversification of its portfolio in order to achieve a prescribed return with the least exposure to risk. The model recognizes that asset classes will, at different points in a market cycle, perform differently and that the combination of these classes will lower the overall volatility in investment returns.

The strategy provides target, minimum and maximum percentages of each asset class.

<u>Asset Class</u>	<u>Target Percentage of Total Portfolio</u>	<u>Minimum Percentage of Total Portfolio</u>	<u>Maximum Percentage of Total Portfolio</u>
Domestic Equities	36%	21%	51%
International Equity	10%	5%	15%
Emerging Markets	5%	2%	8%
Domestic Bonds	19%	9%	29%
Real Estate	15%	10%	20%
Private Equity	5%	2%	8%
Private Credit	5%	2%	8%
Timber	5%	2%	8%

## MAINTENANCE OF ASSET ALLOCATION

As a result of the varying returns among asset classes, funds will have to be reallocated among the asset classes in order to maintain the adopted asset allocation strategy. In conjunction with the Investment Advisory Committee, the City Treasurer-Clerk will review individual managed accounts quarterly and will consider re-balancing to the long-term strategic asset allocation targets whenever the value of a managed account, determined as of a convenient date, is not within the established range of minimum to maximum.

## 236.06 LIQUIDITY

The Plan shall maintain adequate liquidity to provide timely payments to participants. Cash held by managers and the City shall be invested in money market or STIF funds, or other short-term investment vehicles. However, managers are expected to be fully invested at all times, meaning that residual cash should make up no more than 5% of the portfolio at any time.

## 236.07 OPERATING POLICIES

### OVERALL PLAN POLICIES:

- 1) There is no requirement for liquid reserves to be maintained for benefit payment outflows. The City Treasurer-Clerk will communicate to the managers if there is any need for cash flow.
- 2) The asset mix of the Plan will be established by and the responsibility of the Sinking Fund Commission.
- 3) The consultant shall periodically review the asset mix and recommend such changes as determined to be appropriate.
- 4) The investment managers are expected to operate within the Prudent Expert Rule and the applicable provisions of the Employees Retirement Income Security Act of 1974 (ERISA).

Securities transactions involving commission payments will be placed through brokers on a basis of best available price and most favorable execution. The City Treasurer-Clerk shall be authorized to enter into commission recapture programs. All active managers are encouraged to utilize these programs on behalf of the City to the extent they can do so and still maintain best execution.

- 5) Plan Assets cannot exceed 10% of the total assets of a fund in which the Plan is a participant, unless the Sinking Fund Commission makes an exception.
- 6) Fees will be calculated and paid by the Plan on asset values as determined by the custodian for the Plan.
- 7) Investment performance for actively managed funds will be measured after fees, on a total return basis, including gains, losses, and income.

## **REPORTING**

- 1) Each investment manager will provide to the Plan monthly reports due within 21 days following the end of each month. Minimum content shall include:
  - a. A review of transaction activity for the month.
  - b. A statement of assets, showing both cost and market value. For active managers, this should include a listing of individual securities.
  - c. The total return for the City's portfolio versus the approved benchmark.
- 2) At least quarterly, within 18 business days after the end of each quarter, each active investment manager will provide to the Plan a report containing the following:
  - a. Comparison of the Plan's investment performance to the standard(s) herein established, including the designated benchmark.
  - b. A summary of commissions paid on behalf of City and commissions generated through the City's commission recapture firms.
- 3) The investment managers will reconcile their asset and transaction ledgers with the Plan custodian within 30 days after the end of each quarter. In the event of significant variances that cannot be resolved, the manager will notify the City of such on a timely basis.
- 4) The investment managers will meet with the Investment Advisory Committee periodically as determined appropriate by the City Treasurer-Clerk or as may be requested by the Investment Advisory Committee.

## **INVESTMENT CONSULTANT**

- 1) The investment consultant will provide a quarterly report to the Plan, due no later than 50 days after the end of the quarter. Minimum content shall include:
  - a. A review of the consolidated fund performance.
  - b. A review of the performance of each portfolio manager, including results against objectives, and returns for component parts of the portfolio (stocks, bonds, cash, etc.).
  - c. Recommendations as to changes in managers such as termination, changes in funding levels, need for additional managers, etc.
- 2) The investment consultant, together with the City Treasurer-Clerk, will coordinate meetings with the investment managers, the Investment Advisory Committee and City staff.

## **PLAN CUSTODIAN**

- 1) The Plan Custodian will operate in accordance with a separate agreement with the City, a copy of which is on file in the City Treasurer-Clerk's Office.

## **236.08 GUIDELINES AND EVALUATION CRITERIA FOR MANAGERS**

### **GENERAL MANAGEMENT GUIDELINES**

#### *ALL MANAGERS*

- 1) Convertible securities are defined as equity securities, except when the current yield on a convertible security is greater than 1.25 times that of the ten (10) year US Treasury note (in which case, such securities are classified as fixed income).
- 2) No position held by any one manager, with respect to individual security holdings for the Plan (other than securities issued by the United States Treasury), may exceed 10% of the total market value of the account under management by said manager. Notwithstanding the preceding sentence, the total market value of the largest ten holdings in an equity account, at any point in time, may not exceed 60% of the total value of the account.
- 3) Managers are expected to adhere to the style of management for which they were retained by the Plan, with the guiding criteria being that reflected in each contract or agreement between the Plan and each investment manager as the "statement of investment guidelines and objectives" or similarly related title.
- 4) In general, short sales of the Plan's securities are not permitted. However, if a portfolio manager is specifically authorized to engage in short sales of securities, options, or futures contracts, then such positions must be "covered", via the value of specifically designated offsetting securities, cash, or cash equivalents owned by the Plan.
- 5) No loans or borrowings are permitted in the Plan's managed accounts, other than mortgage debt on property in the Plan's real estate accounts, but such debt must be executed in a manner that prevents the possibility of recourse against the Plan, in the event of default. A manager may cause the Plan Custodian to advance cash to the manager in order to facilitate failed transactions or unanticipated delays in settlement.
- 6) The City Treasurer-Clerk may enter into an agreement with the Plan's custodian or other designated provider to loan securities held by the Custodian on behalf of the Plan to borrowers of the highest credit standing. The agreement with the custodian or other designated provider will be specific as to both the amount of risk exposure for the Plan and the fee-sharing formula between the Plan and the custodian or other designated provider.

#### *EQUITY MANAGERS*

- 1) The liquidity of publicly traded securities in the Plan's portfolio is one of the significant elements in determining their valuation and is considered important to the operation of the Plan. Therefore, managers are expected: a) to include liquidity as one of the considerations when adding new positions to the portfolio, and b) to execute systematic periodic procedures for reviewing the liquidity of each position (except under extreme market conditions).
- 2) Managers are expected to be fully invested in equities at all times, meaning that residual cash should make up no more than 5% of the portfolio at any time.
- 3) Use of American Depository Receipts (ADRs) are both permitted and encouraged for investments

in companies that are not based in the United States.

## **BOND MANAGERS**

- 1) The following debt instruments are prohibited: inverse floaters, interest-only strips and any securities with built-in leverage characteristics. In general, debt holdings should be liquid. Less liquid instruments, such as "Section 144 Securities", "preferred capital securities" and "private-label" collateralized mortgage securities are permitted, but only up to a maximum (collective) limit of 15% of the market value of a manager's portfolio.
- 2) Unless specifically permitted otherwise in writing, and except for investments in bank loans, all debt securities in the Plan's portfolios must be rated as "investment grade" by all major rating agencies. In the event of a split rating, managers should use the lowest of the published ratings. In the event of a rating downgrade to below investment grade, managers should use their best judgment as to whether and when to dispose of the security.

## **MANAGER EVALUATION CRITERIA**

### *GENERAL CRITERIA*

#### **Performance Objectives**

- 1) Market benchmarks will usually be compared to accounts over a rolling 5-year period to capture a market cycle. The City Treasurer-Clerk, in conjunction with the Investment Consultant and the Investment Advisory Committee, will develop appropriate benchmarks for each individual manager.
- 2) Peer group benchmarks will generally gain importance for judging performance during periods when the peer group's median performance is significantly above or below the market benchmarks being applied to an account. Each equity and bond manager is expected to perform among the top 40% of their peer group over a rolling five-year period.
- 3) The City Treasurer-Clerk, in consultation with the Investment Advisory Committee and advised by the Investment Consultant, may amend these objectives and measurement standards as deemed necessary, including deleting or adding objectives and measurement standards as managers for the Plan are terminated or hired.

#### **Cause for Manager Probation and/or Termination**

The City Treasurer-Clerk, in consultation with the Investment Advisory Committee and advised by the Investment Consultant, may place a management firm on probationary status, with either a specific or indefinite timetable for further action, or may terminate the firm's account, based upon their best judgment as to the impact of various factors, including, but not limited to:

- 1) Significant events which involve changes in the ownership and/or management of a firm that manages assets for the Plan.
- 2) Significant and/or persistent under-performance of target benchmarks, judged according to various factors, to include (among other possibilities): a) established history of correlation with the benchmarks, b) absolute magnitude of underperformance, c) frequency of periodic performance shortfalls, and d) poor ranking among the manager's peer group.
- 3) Strong indication that the Plan's account holds a significant number or value of securities, which are at variance with the management style/role assigned to it in the Plan's overall allocation.