

# **STATEMENT OF INVESTMENT POLICY**

## **FOR THE**

### **CITY OF POMPANO BEACH GENERAL EMPLOYEES' RETIREMENT SYSTEM**

May 18, 2021

#### **Introduction**

The Board of Trustees of the City of Pompano Beach General Employees' Retirement System has established this Statement of Investment Policy. This policy has been identified by the Board as having the greatest expected investment return, and the resulting positive impact on asset values, funded status, and benefits, without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to different asset classes.

This Statement of Investment Policy is intended to complement the investment guidelines provided in applicable State Statutes, and local ordinances. The purpose of this Statement is to:

- 1) Provide the investment manager a more accurate understanding of the Trustees' investment objectives and,
- 2) Indicate the criteria by which the investment manager's performance will be evaluated.

## **INVESTMENT MANAGER RESPONSIBILITIES & CONTRACTS**

- 1) Within the guidelines and restrictions set forth herein, it is the intention of the Board to give the investment manager full investment discretion, with respect to assets under its management. The investment manager shall discharge its responsibilities in the same manner as it would if the Fund were governed by the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Although the Fund Trustees acknowledge that ERISA does not apply to a governmental fund, it hereby imposes the fiduciary provisions of ERISA upon the investment manager whose performance shall conform to the statutory provisions, rules, regulations, interpretations and case law of ERISA. The investment manager shall acknowledge, in writing, that it is a named fiduciary of the Fund.
- 2) The investment manager is expected to provide any reasonable information requested by the Board of Trustees. At a minimum, each manager shall provide a quarterly report detailing their investment activity, the portfolio's current value, and any changes in investment philosophy or strategy. The Firm's investment manager is expected to meet with the Board of Trustees at least once per year. A designated representative will meet with the Board of Trustees, as requested.
- 3) Unless otherwise provided by the Custodian, the investment manager will monitor portfolio activity to minimize non-invested cash balances.
- 4) The investment manager shall be responsible only for those assets under its management. It will be the responsibility of the investment manager to review the monthly valuations provided by the Custodian and to note, in writing, any significant discrepancies from the valuations provided in their own reports.
- 5) In entering into any investment agreement, it is the Policy of the Fund not to provide indemnification.

### **Florida Statute 112:**

1. **EXPECTED ANNUAL RATE OF RETURN:** With consideration to rates of return from different asset classes, the Board of Trustees has crafted its investment program in order to deliver an expected rate of return similar to that of the actuarial assumed rate. The Board shall determine for each actuarial valuation, the total expected annual rate of return for the current year, for each of the next several years and for the long term thereafter. The total expected annual rate of return is anticipated to be similar to the actuarial assumed rate of return. This determination is to be filed with the Department of Management Services and with the plan sponsor and consulting actuary.
2. **CONTINUING EDUCATION:** The Board of Trustees relies on its consultants and professionals to provide continuing education on pension and investment issues. The Board of Trustees also recognize state and regional conferences as a source of continuing education. The Trustees are encouraged to attend conferences, schools, and other functions periodically in order to fulfill this requirement.

3. **FILING OF INVESTMENT POLICY:** The investment policy is to be promptly filed with the Department of Management Services, plan sponsor and consulting actuary. The effective date of the investment policy and any amendment thereto shall be the 31st calendar day following the filing date with the plan sponsor.

### **GENERAL OBJECTIVES**

The primary investment objective of the City of Pompano Beach General Employees' Retirement System is the preservation of invested capital. The secondary objective is to achieve moderate long-term real growth of the assets while minimizing the volatility of returns.

To achieve these objectives, the Board of Trustees seeks to create well-diversified and balanced portfolio of assets and asset classes managed in separate accounts, mutual funds, commingled funds, and/or limited partnerships. The Board has determined that one or more outside investment managers may be retained to assure that all investments are managed in both a prudent and professional manner and in compliance with the stated investment guidelines.

### **INVESTMENT OBJECTIVES**

Investment objectives are intended to provide quantifiable benchmarks to measure and evaluate portfolio return and risk. Most investment styles require a full market cycle to allow an investment manager to demonstrate his abilities. A full market cycle is defined as a three to five-year time period. As a result, performance objectives will be measured over three to five year periods. Monitoring shorter periods may be used to determine the trend of performance premiums or deficiencies.

The specific investment objectives of the City of Pompano Beach General Employees' Retirement System are as follows:

**Absolute Return Objective:** The Goal of the Pompano Beach General Employees' Retirement System shall be to achieve an average annual rate of return equal to or greater than **applicable assumed rate of return** over the longer term. This absolute return objective will be evaluated in the context of the prevailing investment market conditions.

**Market Return Objective:** In order to provide a reference of fund return and risk relative to a similar basket of passive assets, the board has developed a "Target Index". The fund's objective is to achieve a rate of return over the long term (3 to 5 years), which exceeds the return of a Target Index.

The Target Index for the City of Pompano Beach General Employees' Retirement System is defined as a **35%** investment in the Russell 1000 Stock Index, a **15%** investment in the Russell 2500 Stock Index, a **10%** investment in the Europe Australasia and Far East (EAFE) Index, a **15%** investment in the Bloomberg Barclays Intermediate U.S. Aggregate Bond Index, a **10%** investment in the Consumer Price Index plus 3.0% (CPI + 3.0%), and a **15%** investment in the NCREIF Property Index.

**Peer Return Objective:** It is expected that the total rate of return earned by the Fund and the returns earned by the stock and bond portions of the portfolio will each rank above in the **Top 50%** when compared to a representative universe of other, similarly managed portfolios.

**Volatility:** The volatility of the Fund's total returns is expected to be similar to that of the Target Index and will be evaluated accordingly.

**The above investment objectives have been established for the entire City of Pompano Beach General Employees' Retirement System. The specific investment objectives for each investment manager will be outlined in addenda to this overall Statement of Investment Policy.**

**INVESTMENT GUIDELINES**

The Board of Trustees has established the following target asset allocation for the entire Pompano Beach General Employees' Retirement System investment account:

	Target Allocation (at market)	Permissible Range (at market)	Representative Benchmark
Equity:			
Large Cap Equity	35%	25% - 45%	Russell 1000
Small/Mid Cap Equity	15%	5% - 25%	Russell 2500 / 2000
Foreign Equity	10%	5% - 25%	EAFE
<b>Total Equity</b>	<b>65%</b>	<b>35% - 70%</b>	
Fixed Income & Alternatives:			
Fixed Income	15%	10% - 35%	Bloomberg Barclays Intermediate Agg
Absolute Return*	10%	5% - 20%	CPI+ 3% / 8.0%
Direct Real Estate	15%	5% - 25%	NCREIF
Cash Equivalents	0%	0% - 10%	T-bills

*\*Absolute return strategies may include but not be limited to infrastructure, maritime, tactical asset allocation, TIPs, or market neutral.*

The Board has chosen to engage specialty managers for each asset class. It is the Board's intention to rebalance each asset class and/or manager portfolio quarterly. The trigger for rebalancing has been identified to be when the market value of any asset class/manager portfolio increases or decreases outside the permissible ranges listed above. To implement this strategy, the Board has chosen to hire one or more professional investment managers. It may be necessary to rebalance between investment managers in order to maintain the

permissible asset allocation ranges outlined above. It is the Board of Trustees' intention to evaluate asset valuations quarterly to make the necessary adjustments to achieve compliance with these guidelines.

In accordance with the policies established by the Board of Trustees, the assets of the Pompano Beach General Employees' Retirement System shall be invested in a diversified portfolio of securities, funds and/or pooled assets. Separate account portfolios managed by outside investment advisors and holding individual securities are to comply with the guidelines listed below.

#### EQUITY SECURITIES:

- 1) Investments in equity securities shall be limited to no more than **70%** at market value of the Fund's total asset value.
- 2) All equity investments shall be limited to fully and easily negotiable equity securities.
- 3) No more than **5%** at cost value of an investment manager's equity portfolio may be invested in the shares of a single corporate issuer.
- 4) Investments in foreign securities shall be limited to **25%** (at cost) of the total investment portfolio. The board may achieve diversification in foreign equity through commingled or institutional mutual fund vehicles. These pooled investments are considered an investment in foreign securities.
  - a) American Depositary Receipts (ADRs) are United States dollar-denominated securities listed and traded on a United States exchange and are considered part of the ordinary investment strategy of the Board. ADR securities are not considered foreign securities and may be purchased by separate account managers without limitation.
- 5) No more than **25%** of the equity securities are to be invested in small or mid-cap stocks. The Board defines small and mid-cap stocks the stocks whose market capitalization is less than \$10 billion dollars.
- 6) Investment in those corporations whose stock has been publicly traded for less than one year are limited to **15%** of the equity portfolio.

#### FIXED INCOME SECURITIES:

- 1) The fixed income portfolio shall comply with the following guidelines:
  - a. The average credit quality of the bond portfolio shall be "**A**" or higher.
  - b. The duration of the fixed income portfolio shall not exceed **135%** of the duration of the market index. The market index is defined as the Bloomberg Barclays Aggregate Bond Index.
- 2) Investments in all corporate fixed income securities shall be limited to:
  - a. Those securities rated below "BBB" shall not exceed **15%** of the entire fixed income portfolio.

- b. no more than **5%** at cost of an investment manager's total fixed income portfolio shall be invested in the securities of any single corporate issuer.
- 3) Collateralized Mortgage Obligations (CMOs) shall be limited to **15%** of the market value of the investment managers' total fixed income portfolio. Residential private security CMOs are prohibited. Agency CMOs may be purchased without restriction.
- 4) Futures contracts may be used on a non-levered basis for duration adjustment and yield curve positioning purposes.
- 5) There is no limit imposed on investments in fixed income securities issued directly by the United States Government or any agency or instrumentality thereof.

REAL ESTATE:

- 1) Investments in real estate shall not exceed **25%** of the value of the total Fund assets.
- 2) All real estate investments shall be made through participation in diversified commingled funds of real properties. These funds shall be broadly diversified as to property type and location.
- 3) Experienced and professional real property investment managers shall manage all real estate investments.

ABSOLUTE RETURN:

- 1) Investments in absolute or real return strategies shall not exceed **20%** of the value of the total Fund assets.
- 2) All absolute or real return investments shall be made through participation in diversified commingled funds, mutual fund or limited partnership vehicles.
- 3) The Board considers absolute return as those strategies with a stable and consistent return expectation that are not tied to any asset class or benchmark. These strategies may include but not be limited to infrastructure, tactical asset allocation, TIPs, or market neutral. The Board of Trustees shall endeavor to consider those investments that offer liquidity, transparency and low relative fees.

CASH EQUIVALENT SECURITIES:

- 1) The investment manager may invest only in the following short term investment vehicles:
  - a. The money market or STIF provided by the Plan's custodian.
  - b. Direct obligations of the United States Government with a maturity of one year or less.

- c. Commercial Paper with a maturity of 270 days or less that is rated A-1 by Standard & Poor's or P-1 by Moody's.
- d. Bankers Acceptances issued by the largest 50 banks in the United States (in terms of total assets).

**PROHIBITED SECURITIES:**

Only those derivative securities expressly described herein are permissible. Venture capital, trading on margin and short selling are prohibited unless otherwise stated in an investment managers' addendum to this investment policy.

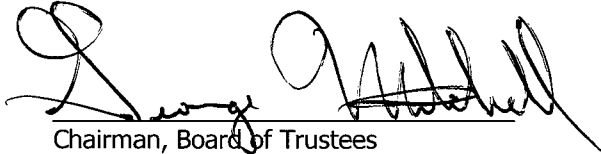
**MUTUAL FUNDS / COMMINGLED FUNDS / LIMITED PARTNERSHIPS:**

The Board of Trustees recognizes and accepts that commingled, mutual fund and limited partnership investments will be dictated by the investment policies and guidelines of those funds and that no additional constraints may be imposed on them. The decision to make a direct investment in any vehicle will only be made by the Board of Trustees after a thorough review of the policies of the governing documents of those funds and after it has been determined that those policies are appropriate and materially and substantially consistent with the investment objectives.

**REVIEW OF POLICY**

It is the intention of the Board of Trustees of the City of Pompano Beach General Employees' Retirement System to review this Statement of Investment Policy and its addenda periodically to amend it to reflect any changes in philosophy or objectives. However, if at any time the investment manager believes that the specific objectives defined herein cannot be met or that these guidelines unnecessarily constrict performance, the Board shall be so notified in writing.

Adopted this 18th day of May 2021.



Chairman, Board of Trustees  
City of Pompano Beach General  
Employees' Retirement System

5/18/21  
Date