

# **TOWN OF PALM BEACH OPEB TRUST**

## **INVESTMENT POLICY STATEMENT**

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

The OPEB TRUST Board of Trustees ("Board") maintains that an important determinant of future investment returns is the expression and periodic review of the Town of Palm Beach OPEB System ("the OPEB System") investment objectives. To that end, the Board has adopted this statement of Investment Policy and directs that it applies to all assets under their control.

In fulfilling their fiduciary responsibility, the Board recognizes that the OPEB system is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the OPEB System 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 OPEB System. 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 manager(s) 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  | 40%          | 35% - 45%        | Russell 3000                |
| International Equity   | 10%          | 5% - 15%         | MSCI-ACWI ex US (net)       |
| <b>Total Equity</b>  | <b>50%</b>   | <b>45% - 55%</b> |                             |
| Broad Market Fixed Income                                      | 25%          | 10% - 40%        | BB-Barclays Aggregate       |
| Non-Core Fixed Income <sup>1</sup>                             | 5%           | 0% - 10%         | BB-Barclays TIPs            |
| <b>Total Fixed Income</b>                                      | <b>30.0%</b> | <b>25% - 55%</b> |                             |
| Real Estate Core/ Plus <sup>1</sup>                            | 10%          | 0% - 15%         | NFI-ODCE Fund Index (EW)    |
| Direct Lending — Middle Mkt.<br>Debt. Pvt. Equity <sup>1</sup> | 5%           | 0% - 10%         | Strategy Index <sup>2</sup> |
| Global Macro Allocation <sup>1</sup>                           | 5%           | 0% - 15%         | Strategy Index <sup>2</sup> |
| Alternative Investment   | 0%           | 0% - 10%         | Strategy Index <sup>2</sup> |
| <b>Total Non-Traditional Assets</b>                            | <b>20.0%</b> | <b>0% - 30%</b>  |                             |

Note: Allocation to Pvt. Equity and Real Estate shall be based on invested capital.

1. Benchmark and allocation targets to these asset classes will default to "core fixed income" if these classes are not funded
2. The "strategy index" for alternative assets is defined as the most appropriate index, combination of indices, or absolute return target for the investment(s) in question. The strategy index will be determined at the time of engagement based on the specific investment's long-term objective, prospectus, and/or governing documents and reflected in performance evaluation reports.

The Board of Trustees, with assistance from the 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. The Board does not intend to exercise short-term changes to the target allocation.

The Office of the Town Finance Director is authorized to move funds as required within the existing investment structure and its established investments as required for the maintenance of the target allocation, and for the management of OPEB System Cash Flow.

### 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. On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumption as established by the Board.
2. The performance of the total portfolio will be measured for rolling three and five year periods. The Target Index for the OPEB System is defined in the TARGET ASSET ALLOCATION table included within this policy.
3. On a relative basis, it is expected that the total portfolio performance will rank in the top 50th percentile of the appropriate peer universe over three and five-year time periods.

#### 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 respective indices indicated in the target allocation table. 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 50th percentile of the appropriate peer universe over three and five-year time periods.

#### C. Broad Market and Non-Core 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 respective indices indicated in the target allocation table. Individual components of the bond portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum. All portfolios are expected to rank in the top 50th percentile of the appropriate peer universe over three and five-year time periods.

#### 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 total fund, defined as core, open ended private real estate, is expected to perform at a rate at least equal to the NFI-ODCE Fund Index (EW) and rank in the top 50th percentile of the appropriate peer universe over 5-year time periods.

#### E. Alternative and Other Non-Traditional 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 fund will be benchmarked as outlined in the manager addendum.

## **IV. INVESTMENT GUIDELINES**

### **A. Authorized Investments**

Pursuant to the investment powers of the Board of Trustees as set forth in the Florida Statutes and local ordinances, the Board of Trustees sets forth the following investment guidelines and limitations:

1. Equities (direct investment):
  - a. Must be traded on a national exchange or electronic network; and
  - b. Not more than five percent (5%) of the OPEB System'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
  - c. Additional criteria may be outlined in the manager's addendum.
2. Fixed Income (direct investment):
  - a. All directly held fixed income investments shall have a rating of in the Top Four ratings classifications as reported by a major credit rating service;
  - b. The value of bonds issued by any single corporation shall not exceed 5% of the total fund;
  - c. Additional criteria may be outlined in the manager's addendum.
3. Money Market:
  - a. The money market fund or STIF options provided by the OPEB System's custodian;
  - b. Have a minimum rating of Standard & Poor's A1 or Moody's P1.
4. 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. The asset classification of the fund will be based upon its investment objective and may be interpreted consistent with the Florida Department of Management Services Division of Retirement. 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 OPEB System into a pooled fund, the Board will adopt the prospectus or governing policy of that fund as the stated addendum to this Investment Policy Statement.

### **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 manager on behalf of the OPEB

System will be governed by the Portfolio Management Agreement between the OPEB System and the Investment Managers.

C. Limitations

1. Investments in corporate common stock and convertible bonds shall not exceed fifty-five percent (55%) of the OPEB System assets at market.
2. Foreign securities shall not exceed thirty percent (30%) of OPEB System's market value.
3. All directly held equity and fixed income securities must be readily marketable. Commingled funds must be independently appraised at least annually.
4. The Board and its Investment Managers shall comply with the applicable requirements of Chapter 203-28, Laws of Florida, including Section 112.662, Florida Statutes. The term "pecuniary factor" is defined as a factor that a named fiduciary "prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with the investment objectives and funding policy of the investment program. The term does not include the consideration of the furtherance of any social, political, or ideological interests." [F.S. 112.662(1)]. In selecting Investment Managers, only pecuniary factors may be considered and the interests of the participants and beneficiaries of the system may not be subordinated to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns. [F.S. 112.662(2)]. Only pecuniary factors may be considered when voting proxies. [F.S. 112.662(3)]

D. Absolute Restrictions

No investments shall be permitted in;

1. Any investment not specifically allowed as part of this policy.
2. Illiquid investments in excess of limitations as described in Chapter 215.47, Florida Statutes (15); 2019.
3. Direct investment in 'Scrutinized Companies' identified in the periodic publication by the State Board of Administration ("SBA list", updated on their website [www.sbafla.com/ifsb/](http://www.sbafla.com/ifsb/)), is prohibited. Securities identified after January 1, 2010, must be divested within twelve (12) months of the company's initial appearance on the list. However, if divestiture of business activities is accomplished and the company is subsequently removed from the SBA list, the manager can continue to hold that security. Indirect investment in 'Scrutinized Companies' (through pooled funds) are governed by the provisions of Section V. (G) below.

**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 OPEB System's performance, forecast of the market and economy, portfolio analysis and current assets of the OPEB System. 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 Town, 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 the Fund 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. An action OPEB System 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 OPEB System.
- 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 OPEB System on a periodic basis.
- F. At least annually, the Board shall provide the Investment Managers with projected disbursement needs of the OPEB System 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.
- G. The Investment Consultant, on behalf of the Retirement System, shall send a letter to any pooled fund referring the investment manager to the listing of 'Scrutinized Companies' by the State Board of Administration ('SBA list'), on their website [www.sbafla.com/ifsbi](http://www.sbafla.com/ifsbi). This letter shall request that they consider removing such companies from the fund or create a similar actively managed fund having indirect holdings devoid of such companies. If the manager creates a similar fund, the Retirement System shall replace all applicable investments with investments in the similar fund in an expedited timeframe consistent with prudent investing standards. For the purposes of this section, a private equity fund is deemed to be an actively managed investment fund. However, after sending the required correspondence, the Retirement System is not required to sell the pooled fund.
- H. The Board shall timely comply with the reporting requirement of Section 112.662 by filing a comprehensive report by December 15 of each odd-numbered year. [112.662(4)]. Investment managers and the Board's Investment Consultant shall assist in the preparation

of required reports and shall annually confirm to the Board their compliance with Chapter 2023-28.

## VI. COMPLIANCE

- A. It is the direction of the Board that the OPEB System assets are held by a third party custodian, and that all securities purchased by, and all collateral obtained by the OPEB System shall be properly designated as OPEB System 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 OPEB System 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 OPEB System sponsor, to the extent possible.
- D. The Board acknowledges the importance of continuing education for the Trustees. Education will be provided on an on-going basis by the Fund's actuary, attorney, custodian, investment manager(s), consultant and administrator. In addition, the Trustees are encouraged to attend educational conferences in connection with their duties and responsibilities. Each trustee is encouraged to attend a minimum of one conference or seminar per year. Additional conferences or seminars are also encouraged.
- 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 appropriate State Agency as so required, the OPEB System's sponsor and the consulting actuary.
- F. The proxy votes must be exercised for the exclusive benefit of the participants of the OPEB System. 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.
- G. The Investment Consultant will provide Investment Managers for consideration based solely on pecuniary factors as defined by Florida Statutes §112.662.
- H. If a Request for Proposals document is issued for Investment Manager services, the solicitation document must include the following: The Board of Trustees may not request

documentation of or consider a vendor's social, political, or ideological interests when determining if the vendor is a responsible vendor. Additionally, the Board of Trustees may not give preference to a vendor based on vendor's social, political, or ideological interests.

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

The Board wishes to adopt standards by which judgments of the ongoing performance of a portfolio manager may be made. If, at any time, any three of the following is breached, the portfolio manager may be warned of the Board's serious concern for the OPEB System's continued safety and performance. If any five of these are violated the consultant may recommend a manager search for that mandate.

- Four (4) consecutive quarters of relative under-performance verses the benchmark index.
- Three (3) year trailing return below the top 50th percentile within the appropriate peer group and under performance verses the benchmark index.
- Five (5) year trailing return below the top 50th percentile and under performance verses the benchmark index.
- 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 IPS or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC).
- Significant asset flows into or out of the company.
- 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 manager at any time for any reason.

## **VIII. APPLICABLE TOWN ORDINANCES**

If at any time this document is found to be in conflict with the Town Ordinances or applicable Florida Statutes such as F.S. 215.47(1) (8), (10) and (16), and 215.473(e), the Ordinances and Statutes shall prevail.

## **IX. REVIEW AND AMENDMENTS**

It is the Board's intention to review this document periodically (no less than every 3 years) 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 OPEB System's legal counsel for compliance with applicable law, and approved by the Board of Trustees.

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

Upon adoption by the Board, the investment policy shall be promptly filed with the Town, and the OPEB System's actuary.

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Approved as to form and legal sufficiency:

\_\_\_\_\_  
Date: