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**CITY OF FORT LAUDERDALE  
GENERAL EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**I. SCOPE OF THE POLICY**

- A. The Board of Trustees (Board) of the General Employees' Retirement System (Plan) have adopted these guidelines for the Investment of the Plan's assets to be administered in accordance with applicable Florida State Statutes and City Ordinances. To that end, this Policy is intended to set forth the procedures of investment objectives and parameters for the management of those assets in a manner designed to fulfill the requirements of the Board's fiduciary responsibilities.
- B. The Board recognizes their responsibility for the investment of the Plan's assets. To discharge this function, the Board is authorized by law to retain the services of Investment Managers who possess the necessary skilled personnel and facilities to provide the expertise with respect to the investment of Plan funds entrusted to them.
- C. This Policy will be reviewed no less frequently than annually by the Board and will be revised from time to time according to the Board's investment philosophy.

**II. INVESTMENT OBJECTIVES**

- A. The objective of this policy is to invest the assets of the fund, either directly or through investment managers, in order to provide ongoing pension benefits to Plan members and their beneficiaries.
- B. The goal is to maximize the funds' total rate of return through capital appreciation and income while limiting the amount of risk exposure to the fund. The methodology to determine the Plan's risk/return characteristics is through a diversification of investments across various asset classes detailed in Section V.
- C. An additional objective is to keep losses at a minimum due to erosion of market value or from security defaults. To that end, investment managers will trade securities from time to time to improve yield, maturity, quality, credit risk, and total return potential.
- D. The financial objective is to achieve the actuarial assumed rate of return over a market cycle along with an annualized total return that exceeds the rate of inflation measured by the Consumer Price Index (CPI).

### **III. PERFORMANCE MEASUREMENT**

- A. The Board shall adopt Measures of Investment Performance of the Plan's assets to be evaluated on a quarterly basis. The Board shall retain the services of an independent Investment Consultant to assist in monitoring the investment performance of the individual Investment Managers. Such performance is measured currently and historically to determine:
1. If the Manager has performed according to these Policy guidelines.
  2. If the Manager has performed in the style or investment philosophy for which that firm was hired.
  3. How the Manager has performed in relation to the Measures of Investment Performance for their asset class.
  4. How the Total Fund and each Manager has performed in relation to the returns generated by similarly managed funds.
- B. The Measures of Investment Performance of investment returns on the various asset categories are as follows:
1. The Plan's total fund will be compared to the CPI as an inflationary measure and the actuarial interest assumption as described in Section IX.
  2. The Plan's fixed income portfolio will be compared to the weighted average return of the Lehman Intermediate Aggregate Bond Index.
  3. The Plan's domestic equity portfolio will be compared to the weighted average return of the Standard and Poor's 500 Index, the Russell 1000 Growth Index, and the Russell 1000 Value Index, as applicable to style.
  4. The Plan's international portfolio will be compared to the weighted average return of the Morgan Stanley Europe, Australia, & Far East (EAFE) Index.
  5. The Plan's emerging markets portfolio will be compared to the weighted average return of the MSCI Index for Emerging Markets.

### **IV. INVESTMENT AND FIDUCIARY STANDARDS**

- A. Plan assets will be invested in a manner consistent with the standards set forth in:

1. The Employee Retirement Income Security Act of 1974 at 29 U.S.C. s. 1104(a)(1)(A)-(C).
  2. Chapter 112 and Chapter 518, Florida Statutes.
  3. Section 20, City of Fort Lauderdale Ordinances.
  4. In the event of conflict, within these provisions or any other provisions of law authorizing investments, the investment and fiduciary standards set forth in Chapter 112.661(4) and item 1 above shall control.
- B. The Board will adhere to the standard of the Prudent Person within the context of the overall management of the Plan's investment program. The Prudent Person standard is as follows:
- "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."
- C. Any person or firm retained concerning the investment, monitoring, or advisement of the Plan's assets will be held to the higher standard of Prudent Expert. Such person or firm will exercise the judgement, 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.

## **V. AUTHORIZED INVESTMENTS**

- A. Funds placed with Investment Managers are to be invested only in those authorized classes of investment as contained in this Policy. Investments should be made subject to the Plan's cash flow needs and such cash flows are subject to revision due to changes in the Plan's needs and market conditions.
- B. The authorized classes of investments for the Plan are as follows:
1. Bonds, securities, and certificates of indebtedness of the United States government.
  2. Obligations guaranteed as to principal and interest by the United States government.

3. Obligations guaranteed as to principal and interest by government-sponsored agencies of the United States government.
4. The Florida Local Government Surplus Funds Trust Fund (SBA).
5. Commercial Paper rated A-1 or P-1 by a nationally recognized rating service. If the Commercial Paper backed by a Letter of Credit (LOC), the long-term debt of the LOC provider must be rated A or better by at least two nationally recognized rating services.
6. Bankers Acceptances of United States banks or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, rated A-1 or P-1 by a nationally recognized rating service.
7. Corporate bonds or notes, registered or unregistered under Rule 144A, issued by firms organized and operating within the United States or by depository institutions licensed by the United States rated A by a nationally recognized rating service at the time of purchase. Rule 144A bonds or notes must include rights of registration. Any bond or note that falls below investment quality must be eliminated expeditiously unless the Board is notified for the reason or rational to be held.
8. General Obligation and/or Revenue Bonds of state or local government taxable or tax-exempt debt rated A, for long term debt, by a nationally recognized rating service or rated MIG-2 or SP-2, for short term debt, by a nationally recognized rating service.
9. Intergovernmental investment pools authorized pursuant to the Florida Interlocal Cooperation Act provided in Section 163.01, Florida Statutes.
10. Common and preferred stocks from domestic and foreign corporations.
11. Real estate and real estate securities as deemed proper investments by the Board.
12. Repurchase Agreements
  - a. The Plan's Fund Portfolio Managers may invest in repurchase agreements composed of only those investments authorized in numbers 1, 2, and 3 (above). All firms are required to sign the Plan's Master Repurchase Agreement prior to the execution of a repurchase agreement transaction.
  - b. A third party custodian with whom the Plan has a current custodial agreement will hold the collateral for all repurchase agreements

with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the Plan's Fund Portfolio Manager and retained.

- c. Securities authorized for collateral must have maturities less than 10 years with a market value for the principal and accrued interest of 102% of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102% requirement are permissible only upon the approval of the Pension Plan Administrator.
- C. Investment Managers are encouraged to transact securities trades through the Plan's Commission Recapture Broker subject to the professional judgement of the Manager regarding best execution and commission costs.

## **VI. MATURITY AND LIQUIDATION REQUIREMENTS**

- A. The maximum maturity of investments purchased on behalf of the Plan will be as follows:
- 1. The overall weighted average duration of principal return for the total fund will be less than 140% of the Lehman Aggregate Bond Index.
  - 2. For certificates of deposit, 1 year or less from the date of purchase.
  - 3. For commercial paper, 180 days or less from the date of purchase.
  - 4. For banker's acceptances, 180 days or less from the date of purchase.
  - 5. For money market funds, 120 days or less from the date of purchase.
  - 6. For repurchase agreements, 90 days or less from the date of purchase.
- B. To service the annual pension payroll and administrative expenses of the Plan, sufficient liquidity will be maintained by the custodian bank in the amount of approximately \$1,500,000.00. The custodian bank will be regularly advised of the Plan's liquidity requirements.

## **VII. PORTFOLIO COMPOSITION**

The Board has adopted the following long-term target asset mix for the Fund as follows:

- 1. 70% of the Plan's market value assets to be allocated to the Equity Investment style. Based on the vagaries of market activities, the Board

will accept a swing increase or decrease of up to five percent (between 65%-75%) from the target figure. This target is further allocated as follows:

- a. 40% of the Plan's equity assets to be allocated to the Growth Style consisting of large, mid, and/or small capitalization equities. Based on the vagaries of market activities, the Board will accept a swing increase or decrease of up to five percent (between 35%-45%) from the target figure. \*
  - b. 40% of the Plan's equity assets to be allocated to the Value Style consisting of large, mid, and/or small capitalization equities. Based on the vagaries of market activities, the Board will accept a swing increase or decrease of up to five percent (between 35%-45%) from the target figure. \*
  - \* Within each category (a & b), up to 5% of the investment may be invested in small capitalization equities. Based on the vagaries of market activities, the Board will accept a swing increase or decrease of up to two percent (between 3%-7%) from the target figure.
  - c. 15% of the Plan's equity assets to be allocated to the International Style. Based on the vagaries of market activities, the Board will accept a swing increase or decrease of up to three percent (between 12%-18%) from the target figure.
  - d. 5% of the Plan's equity assets to be allocated to the Emerging Markets Style. Based on the vagaries of market activities, the Board will accept a swing increase or decrease of up to two percent (between 3%-7%) from the target figure.
2. 25% of the Plan's market value assets to be allocated to the Fixed Income style. Based on the vagaries of market activities, the Board will accept a swing increase or decrease of up to five percent (between 20%-30%) from the target figure.
  3. 5% of the Plan's market value to be allocated to Real Estate investments. Based on the vagaries of market activities, the Board will accept a swing increase or decrease of up to two percent (between 3%-7%) from the target figure.
  4. The Board will reallocate the Fund as necessary when the assets increase or decrease outside of the above targets. Drawing cash as needed for the Plan's expenses is to be considered as a part of the asset reallocation process. Additionally, the Board reserves the right to

temporarily waive the reallocation process because of changes to economic and/or the capital market environment.

## **VIII. RISK AND DIVERSIFICATION**

- A. The Board has adopted a strategy, described in Section VII, whereby the Plan's asset portfolio will be diversified to the extent practicable to control the risk of loss which might result from an over-concentration of investments in a specific security, maturity, issuer, dealer, or bank through which financial instruments are bought or sold.
- B. In a further effort to control the risk of loss and assure adequate diversification, the following limitations are imposed upon the overall investment of the Plan's assets:
  - 1. A maximum of 5% investment in the outstanding common stock of any one company or organization, notwithstanding Real Estate investment.
  - 2. A maximum of 5% investment in the outstanding debt issuance of any one company or organization.
  - 3. In the International portfolio(s), a maximum of 35% investment in Japan and a maximum of 20% in any other foreign country. The Plan Administrator will monitor and review these maximums on a monthly basis.

## **IX. EXPECTED ANNUAL RATE OF RETURN**

The Board has set the Plan's current expected rate of return, effective 10-01-2003, at 7.75%, the short term expected rate of return at 7.75%, and long term expected rate of return to be at least the actuarial interest assumption rate of 7.75% along with an additional annualized return that exceeds the rate of inflation measured by the CPI.

## **X. THIRD-PARTY CUSTODIAL AGREEMENTS**

All securities will be held with the Custodial Bank (Bank) under a contractual agreement with the Board. All securities purchased by and all collateral obtained by the Investment Managers and/or the Board are designated as assets of the Plan. No withdrawal of securities, or transfer of funds, in whole or in part, can be made from safekeeping except by authorization of the Board and written execution by any one of the following: the Board Chairman, Vice-Chairman, or the Plan Administrator. Securities transactions between a broker-dealer and the Bank involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if

applicable, to ensure that the Bank will have the security or money, as appropriate, in hand at the conclusion of the transaction.

#### **XI. MASTER REPURCHASE AGREEMENT**

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

#### **XII. BID REQUIREMENTS**

Each Portfolio Manager shall obtain competitive bids and offers on investment transactions to the fullest extent possible. Periodic reports will be made to the Board of investment firms conducting Plan business with the Fund's Investment Managers reflecting purchases, sales, or other activity.

#### **XIII. INTERNAL CONTROLS**

- A. The Plan Administrator will establish a system of internal controls and written operational procedures to be a part of the Plan's operational procedures to be reviewed annually by the Board. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation, by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and record keeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs.-payment" procedures. No person may engage in an investment transaction except as authorized under the terms of this policy.
- B. The Board shall establish an audit committee to conduct compliance with policies and procedures. Additionally, the Plan's Actuary and Investment Consultant will perform annual system reviews.

#### **XIV. CONTINUING EDUCATION**

Members of the Board and the Plan Administrator have the responsibility for continuing education programs in matters relating to Plan investments and Board responsibilities through the reading of appropriate materials and by attending appropriate local and national conferences and seminars from time to time as authorized by the Board.

## **XV. REPORTING**

The Board will annually make available information regarding the Plan's investment portfolio, book and market value, and income earned, to the City's Financial Office for inclusion in the City's Comprehensive Annual Financial Report (CAFR).

## **XVI. FILING OF INVESTMENT POLICY**

- A. The Board will promptly file this Policy with the State of Florida's Department of Management Services, the City of Fort Lauderdale, and the Plan's Actuary upon adoption.
- B. The effective date of this Policy will be the 31<sup>st</sup> calendar day following the date filed with the City of Fort Lauderdale.

## **XVII. VALUATION OF ILLIQUID INVESTMENTS**

All illiquid investments for which a generally recognized market is not available or for which there is no consistent or generally recognized pricing mechanism will be given an actuarial valuation to the Plan Actuary on an annual basis. For each actuarial valuation, the Board must verify the determination of fair market value for those investments and ascertain that their determination complies with all applicable state and federal requirements. The Board will disclose each illiquid investment to the State of Florida's Department of Management Services and the City of Fort Lauderdale.

**APPROVED AND ADOPTED BY THE GENERAL EMPLOYEE'S RETIREMENT SYSTEM  
BOARD OF TRUSTEES ON: January 5, 2006.**