

**POMPAÑO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM  
INVESTMENT POLICY ADOPTED NOVEMBER 15, 2021  
EFFECTIVE DECEMBER 16, 2021**

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Name of Plan: Pompano Beach Police and Firefighters' Retirement System

Plan Sponsor: Pompano Beach, Florida

Current Board of Trustees:

<u>Police Department</u>	<u>Fire Department</u>
Daniel M. Christophers	Vincent Femia
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Custodian: Salem Trust Company

Money Managers: BlackRock, The Blackstone Group, Cohen & Steers, Goldman Sachs, Incore Capital Management, INVESCO, Ironwood Capital Management, Lazard Asset Management, Martin Currie Inc., Mellon Investments Corporation, Neuberger Berman LLC, Nuance Investments, Renaissance Investment Management, Sands Capital Management LLC, Sawgrass Asset Management and Wells Capital Management.

Investment Consultant: Graystone Consulting, a business of Morgan Stanley

Actuary: Nyhart, Inc.

Accountant: Marcum LLP

Legal Counsel: Sugarman & Susskind, P.A.

The Chairman of the Board of Trustees of the Pompano Beach Police and Firefighters' Retirement System has reviewed the attached Statement of Investment Management Policies, Guidelines and Objectives for completeness and has approved them as such.

**SCOPE**

The Statement of Investment Policy shall apply to all funds under control of the Board of Trustees.

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# **INVESTMENT MANAGEMENT POLICIES, GUIDELINES AND OBJECTIVES**

**For The**

## ***POMPANO BEACH POLICE & FIREFIGHTERS' RETIREMENT SYSTEM***

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### **I. INTRODUCTION AND BACKGROUND**

The Pompano Beach Police and Firefighters' Retirement System is a defined employee pension benefit plan established by Ordinance of the City of Pompano Beach to provide retirement benefits for its police officers and firefighters. The City of Pompano Beach is the "plan sponsor". The Plan is administered by the Police and Firefighters' Retirement System Board of Trustees. The Plan is a pension plan maintained to provide retirement, disability, termination and death benefits to participants in accordance with the express provisions of the Plan.

The Plan and the benefits provided thereunder are funded by contributions by the City of Pompano Beach, Employees' contributions, state premium tax refunds, interest income and other income in accordance with the underlying Plan documents.

The Board of Trustees is charged by Ordinance and Chapter 112, Florida Statutes with the responsibility of developing a policy for the investment of the assets of the Fund. The trustees are named fiduciaries. The investment of the assets of our retirement plan must be consistent with the written investment policy adopted by the board of trustees. The policies are structured to maximize the financial return to the retirement plan consistent with the risks incumbent in each investment and are structured to establish and maintain an appropriate diversification of the retirement system's assets. To assist the Board in this function, they are authorized to engage the services of investment and actuarial consultants to provide expert assistance. The Board periodically undertakes studies to evaluate the potential consequence of alternative investment strategies on the long term well being of the Plan. In the view of its consultants and the Board, the investment program defined in this Statement will produce a result over the long term consistent with the Plan's primary objective of preserving and enhancing the purchasing power of assets.

In the implementation of the investment program, the Plan will employ investment managers who have demonstrated expertise with particular asset classes. Furthermore, the Plan's investment managers utilize a variety of investment approaches. This diversification of managers and investment approach should reduce the risk of loss and contribute to the attainment of a more consistent positive return. Nonetheless, there will be short term periods when the fund may experience negative returns. Such periods are not inconsistent with achievement of the targeted long term objective.

## II. INVESTMENT POLICY AND OBJECTIVES

Based on analysis of the Plan assets and expected investment returns and risks associated with alternative asset mix strategies, the Board adopted the following asset class targets, based on market value:

<u>TRADITIONAL ASSET CLASSES</u>	<u>% Range</u>	<u>% Target</u>
<b>EQUITY MANAGER(S)</b>		
<i>Large Capitalization Value Manager</i>	17.50 – 7.50%	12.50%
<i>Large Capitalization Growth Manager</i>	17.50 – 7.50%	12.50%
<i>Small/Mid Capitalization Value Manager</i>	10.00 – 0.00%	5.00%
<i>Small/Mid Capitalization Growth Manager</i>	10.00 – 0.00%	5.00%
<i>International Value Manager</i>	12.50 – 0.00%	7.50%
<i>International Growth Manager</i>	12.50 – 0.00%	7.50%
<i>Emerging Markets Manager</i>	10.00 – 0.00%	<u>5.00%</u>
<b>Total Equity</b>	65.00 – 45.00%	55.00%
<b>FIXED INCOME MANAGER(S)</b>	30.00 – 17.50%	<u>22.50%</u>
<b>TOTAL TRADITIONAL ASSET CLASSES</b>		77.50%
 <u>ALTERNATIVE ASSET CLASSES</u>	 <u>% Range</u>	 <u>% Target</u>
<b>REAL ESTATE</b>		
<i>Public REIT (Equity)</i>	5.00 – 0.00%	0.00%
<i>Private Real Estate (Fixed)</i>	10.00 – 0.00%	<u>7.50%</u>
<b>Total Real Estate</b>	10.00 – 0.00%	7.50%
<b>LONG/SHORT CREDIT &amp; FUNDS OF HEDGE FUNDS</b>	10.00 – 0.00%	5.00%
<b>INFRASTRUCTURE</b>	7.50 – 0.00%	5.00%
<b>PRIVATE EQUITY</b>	7.50 – 0.00%	<u>5.00%</u>
<b>TOTAL ALTERNATIVE ASSET CLASSES</b>	25.00 – 10.00%	<u>22.50%</u>
<b>TOTAL TRADITIONAL &amp; ALTERNATIVE</b>		100.00%

These ranges and targets are established as maximum weightings in each respective asset class. If the investment manager determines a percentage of their allocation should be invested in cash, they are permitted that flexibility and will be evaluated by their decisions accordingly.

Over time, it is the Board's intention to direct cash flows toward the asset class(es) under-represented and away from the class(es) over-represented.

The General investment objectives of the Board are as follows:

### 1. Establish a Prudent Investment Program

Although the Retirement System is not covered by the Employee Retirement Income Security Act of 1974 (ERISA), the assets of this fund shall be invested in a manner consistent with the fiduciary standard set forth in ERISA, as though ERISA applied to the Retirement System; namely, (1) in accordance with the safeguards and diversity to which a prudent investor would adhere (2) and all transactions undertaken on behalf of the Fund must be for the sole interest of Plan participants and their beneficiaries to provide benefits and pay the expenses of the Fund. The pension investment program must operate in

compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets.

## **2. Achieve Growth in Purchasing Power**

Primary investment emphasis must be placed upon the consistent protection of the funds assets and growth performance, i.e., the achievement of adequate investment growth must not be at the expense of the protection of the assets over the investment horizon.

More specific investment objectives established by the Board include the following:

- The Fund should earn a return over time exceeding the assumed actuarial rate. As of October 1, 2018, the actuarial rate will be lowered by 0.10% per year over the next 5 years to 7.00%. This will result in the following:

<u>Fiscal Year</u>	<u>Actuarial Return</u>
October 1, 2018	7.40%
October 1, 2019	7.30%
October 1, 2020	7.30%
October 1, 2021	7.20%
October 1, 2022	7.10%
October 1, 2023	7.00%

The Fund should earn a return greater than inflation, as measured by the Consumer Price Index, by 3.0% per year. This is consistent with the Board's objective to enhance the purchasing power of the Funds.

- Individual investment managers will not be measured against the aggregate fund objective stated above. They will be compared to appropriate market indices, and the performance of other managers who utilize a similar investment style.

## **III. TRADITIONAL ASSET CLASSES - INVESTMENT GUIDELINES**

### **A. Liquidity Requirements**

There is a requirement to maintain liquid reserves for the payment of pension benefits and expenses. The Board will review these projected cash flow requirements at least annually.

### **B. Securities Permitted on an Interim Basis**

Investments may be made in Exchange Traded Funds (ETFs) or iShares on an interim basis during manager searches.

### **C. Monitor & Compliance**

The Plan shall comply with the Protecting Florida's Investments Act (PFIA). The investment managers are prohibited from purchases and are required to divest any investments in those companies with certain business operations in the countries of Sudan

and Iran designated as “scrutinized companies” under the PFIA. Each manager shall be responsible for keeping current as to the companies listed as “scrutinized companies” by the Florida State Board of Administration. The consultant shall report quarterly on each manager’s compliance.

**D. Equities**

The investment managers are permitted to invest in equity securities (including convertible bonds) listed on the New York and principal regional and foreign (for foreign securities) exchanges. They may also invest in over-the-counter securities where an active market maker is regulated by the National Association of Securities Dealers (NASD). For international investing, ADRs that trade over the counter, such as “Pink Sheet” ADRs and Bulletin Board ADRs are permissible as well as any foreign company that trades directly in a U.S. equity market. The equity position in any one company shall not exceed 5% of the total portfolio at market. Any investment not in a category listed above is prohibited.

The equity portion of each portfolio manager shall not:

1. Be more than 15% invested in the securities of any one company at market.
2. Make short sales.
3. Use margin or leverage.
4. Be invested in commodities.
5. Be invested in private real estate
6. Be invested in " investment art objects."
7. Invest in Options, including the purchase, sale or writing of options unless options are "covered" by the corresponding security.
8. Be invested in warrants, although warrants issued in connection with stocks held by the fund may be sold, held, or converted by the investment manager at its discretion.

The total portfolio shall not exceed the 25% maximum limit on foreign securities set forth in Sections 175 and 185, Florida Statutes. The compliance and monitoring of this Section (III.C. and III.D.) is the responsibility of the consultant and the trustees. The consultant’s responsibility is to report any non-compliance to the trustees each quarter.

**a.) Large Capitalization Value & Growth**

Large capitalization stocks are expected to have the greatest weighting in the Retirement System. They are expected to provide more consistent returns over time than our other equity styles. The objective is to maximize investment return over a market cycle by investing in large capitalization equities having the potential to generate investment returns exceeding a passively managed large stock index.

Large capitalization equity manager performance parameters include the following:

- Performance within the top half of a Universe of Large Capitalization Value, Growth, or Core Managers.
- Performance comparable to the Russell 1000 Value or Growth Indexes.
- When appropriate, performance comparable to the S&P.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the appropriate market index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

b.) Small/Mid Capitalization Value & Growth Stocks

Small/mid capitalization stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective is to maximize investment return over a market cycle by investing in small/mid capitalization equities having the potential to generate investment returns exceeding a passively managed small/mid stock index.

Small/mid capitalization equity manager performance parameters include the following:

- Performance within the top half of a Universe of Small/Mid Capitalization Value or Growth Managers
- Performance comparable to the Russell Midcap Value Index or Russell 2500 Growth Index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the appropriate market index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle for the small/mid capitalization market.

c.) Developed & Emerging Markets International Stocks

Developed and Emerging Markets International Stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective is to maximize investment return over a market cycle by investing in developed or emerging markets international securities through American Depositary Receipts (ADRs) as well as any foreign company that trades directly in a U.S. equity

market. These equities should generate investment returns exceeding a passively managed international index.

Developed & emerging markets international equity manager performance parameters include the following:

- Exceed MSCI EAFE – Net Dividend, MSCI All Country World ex. US, or MSCI Emerging Markets Index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the appropriate market index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle of the international market.

**E. Fixed Income**

Fixed income securities shall be invested entirely in marketable debt securities issued or guaranteed by either (a) the United States Government or its agencies, (b) domestic corporations (including industrial and utilities) or Israel Bonds (c) asset-backed (ABS) and commercial mortgage-backed securities (CMBS), (d) domestic banks and other US financial institutions. All securities must hold a rating in one of the four highest classifications by a major rating service. Such investments shall all be in accordance with the Code of the City of Pompano Beach. Any investments not under the criteria listed above are prohibited from being purchased. Securities ratings reduced beneath the four highest classifications after purchase should be sold by the portfolio manager within a reasonable period of time as determined by the manager. It is the manager's responsibility to notify the board in writing immediately after a security is downgraded below the policy guidelines. The written explanation should describe the manager's intentions regarding the disposition of the security being downgraded. Restrictions on fixed income include the following:

1. Except for Treasury and Agency obligations, the debt portion of the Fund shall contain no more than ten percent (10%) of a given issuer irrespective of the number of differing issues. Other diversification standards should be developed and applied by the Investment Manager(s).
2. If commercial paper is used it must be of the highest quality (A-1 or P-1).
3. Private placement debt is not permissible except 144a placements.
4. The maximum weighting of fixed income in BBB ratings is 15%.

Fixed income manager(s) performance parameters include the following:

- Performance comparable to the Bloomberg Barclays Aggregate Bond Index.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the Bloomberg Barclays Aggregate Bond Index without a corresponding increase in performance above the index.
- Achieve the above objectives within a time horizon of a minimum of three to five years or a full market cycle.

**F. Communications**

**1. Quarterly**

- a. Evaluation reports will be supplied to the Trustees to provide most current statistics on rate of return.
- b. Written reports should be supplied by the Investment Manager in sufficient detail and commentary so that the Trustees are apprised of Fund status and any changes in philosophy or investment strategy.
- c. Manager should provide a statement certifying compliance with stated guidelines.
- d. Written report on proxies voted will be supplied to the Trustees.

**2. Meetings**

On a reasonable schedule, meetings will be held with the Investment Manager(s) at least one time per year or at other such times as the Trustees may reasonably request to discuss performance results, economic outlook, investment tactics, organizational changes and any other pertinent matters. The Trustees may schedule an interim meeting upon reasonable request of the Investment Manager.

**3. Immediate**

Telephone and/or letter advice should be forthcoming from the Manager to provide the Trustees with information of an immediate nature, such as relevant personnel changes, market activity resulting in abnormal changes in the Fund, etc.



#### **IV. ALTERNATIVE ASSET CLASSES - INVESTMENT GUIDELINES**

Alternative asset classes historically have low to moderate correlation to market indices. Alternative asset classes are expected to improve total portfolio diversification and provide opportunities for higher incremental returns over the long-term. Many of the asset categories are expected to generate absolute returns (positive returns regardless of market environment) versus relative returns (returns comparative to a given benchmark).

Alternative asset classes guidelines differ from traditional asset classes guidelines. Alternative asset managers may use leverage and derivatives, may short securities, generally have higher fees, typically have reduced liquidity, and performance is dependent primarily on advisor skill.

##### **A. Real Estate**

###### ***Real Estate Investment Trusts (REITs)***

The investment managers are permitted to invest in real estate investment trusts (REITs) listed on the New York and principal regional and foreign (for foreign securities) exchanges. They may also invest in over-the-counter securities for which there is an active market maker regulated by the National Association of Securities Dealers (NASD).

###### ***Private Real Estate***

The investment managers are permitted to invest in private real estate. Private real estate will be purchased through an institutional vehicle. The institutional vehicle provides diversification of property type and geographical location and provides a competitive price structure.

##### **a.) Real Estate Investment Trusts (REITs)**

Real Estate Investment Trust securities are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long-term. The objective is to maximize investment return over a market cycle by investment in real estate through REITs. These equities should generate investment returns exceeding a passively managed REIT index.

REIT equity manager performance parameters include the following:

- Exceed National Association of Real Estate Investment Trusts (NAREIT) Equity REIT Index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the NAREIT Equity REIT Index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle of the REIT market.

b.) Private Real Estate

Private real estate investments are expected to improve total portfolio diversification and provide income and opportunities for higher incremental returns in the long-term. The objective is to maximize investment return over a market cycle by investment in real estate through private ownership. These private real estate investments should generate investment returns exceeding a passively managed private real estate index.

Private real estate investment performance parameters include the following:

- Exceed the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index or Open-End Diversified Core Index.
- Performance comparable to the Bloomberg Barclays Aggregate Bond Index
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the above objectives within a time horizon of five to ten years or a full real estate market cycle.

**B. Hedge Funds & Funds of Hedge Funds (FofHFs)**

Hedge Funds (HF) and Fund of Hedge Funds (FofHFs) are private investment funds investing primarily in the global equity and fixed income markets typically employing sophisticated trading strategies using leverage and derivative instruments. FofHFs invests in multiple, single manager hedge funds. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The FofHFs manager has discretion in choosing which strategy to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy or with numerous managers in multiples strategies. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers.

***Low Volatility Funds of Hedge Funds***

The manager selects hedge fund investment managers that invest in Relative Value Arbitrage/ Event Driven asset classes. Relative Value Arbitrage/ Event Driven asset class categories consists of hedge fund managers specializing in Convertible Arbitrage, Fixed Income Arbitrage, Distressed, Statistical Arbitrage, and Equity Market Neutral Strategies.

***Mid to High Volatility Funds of Hedge Funds***

The manager selects hedges fund investment managers that invest in Long/ Short, Global Macro/ Managed Futures, and Manager Futures asset classes.

a.) Low Volatility – Hedge Funds & Funds of Hedge Funds

Low volatility funds are expected to improve total portfolio diversification and provide opportunities to achieve higher incremental returns in the long-term. The objective is to provide absolute returns over a market cycle. The standard deviation for the combination of hedge fund managers' strategies are expected to have return volatility in the range of 2-5% over a market cycle.

Low volatility funds manager performance parameters include the following:

- Exceed appropriate Hedge Fund Research, Inc. index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.
- Compare to the Bloomberg Barclays US Aggregate Bond Index for return and risk over a time horizon of three to five years or a full market cycle.

b.) Mid to High Volatility – Hedge Funds & Funds of Hedge Funds

Mid to high volatility funds are expected to improve total portfolio diversification and provide opportunities to achieve higher incremental returns in the long-term. The objective is to provide absolute returns over a market cycle. The standard deviation for the combination of hedge fund managers strategies are expected to have return volatility in the range of 5-15% over a market cycle.

Mid to high volatility funds manager performance parameters include the following:

- Exceed appropriate Hedge Fund Research, Inc. Fund of Funds index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

C. Long/Short Credit Funds

Long/short credit funds combine allocations to a variety of fixed income instruments including investment grade and high yield corporate bonds, bank loan and structured credit, with tactical long/short credit. These funds may also make smaller allocations to sovereign bonds, asset-backed securities, and equities. They are expected to improve total portfolio diversification and provide opportunities to achieve higher incremental returns in the long-

term. The objective is to provide absolute returns over a market cycle. Investment in long/short credit will be through a mutual fund vehicle.

Long/short credit mutual fund performance parameters include the following:

- Exceed appropriate Hedge Fund Research, Inc. index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.
- Compare to the Bloomberg Barclays US Aggregate Bond Index for return and risk over a time horizon of three to five years or a full market cycle.

**D. Master Limited Partnerships (MLPs)**

Master Limited Partnerships (MLPs) are publically traded equity securities of businesses with income derived primarily from gathering, processing, transportation and storage of natural gas, oil and refined petroleum products. Investments can be made through investments in corporations, general partnerships, and/or limited partnerships. MLPs have the potential to provide relatively high levels of income and relatively low correlation to the equity and fixed income markets. MLPs are generally considered tax advantaged since partnership income is passed through to investors and taxed at the unit holder-level.

MLP manager performance parameters include the following:

- Performance comparable to the Alerian MLP Index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed the comparison index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

**E. Infrastructure**

Infrastructure funds seek total return from both capital appreciation and current income. Investments in Infrastructure shall be managed by experienced and professional investment managers. Investments may be made through a listed infrastructure or private infrastructure fund.

Infrastructure manager performance parameters include the following:

- Exceed the Dow Jones Brookfield Infrastructure Composite Index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

**F. Private Equity**

Private equity can be broadly defined as privately negotiated transactions in public or private companies. Investments can range from funding start-up entities, to infusing growth into an expanding company, to buying out mature enterprises. Typically, private equity investors obtain a large ownership position and take an active board role that allows them to monitor and guide portfolio companies. Major categories of private equity include venture capital, growth financing, buyouts, mezzanine debt, and distressed investing. Private equity funds may be broad in their scope of investments or they may focus on a specific industry or geography. The following considerations should be examined pertaining to investing in private equity:

- **Returns:** Although private equity may serve as a strong return driver for a portfolio, each specific transaction as well as collective investments made in a given time period can contain significant risk.
- **Diversification:** To seek to mitigate risk, investors should spread their commitments across managers, strategies, vintage years, industries, and geographies.
- **Time horizon:** Investments are typically made with a long time horizon (five to seven years or longer).
- **Illiquidity:** Private equity investments are often “locked up.” With no efficient secondary market, it is difficult to exit a private equity investment prematurely.
- **Valuation:** As private equity funds generally will invest in securities not readily marketable, investors may find it difficult to track the value of their investments over the life of the fund.

Private equity manager performance parameters include the following:

- Exceed the appropriate Cambridge Associates Private Equity indexes.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the appropriate index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

- Compare to the S&P 500 Index for return and risk over a time horizon of three to five years or a full market cycle.

## **V. STATE MANDATED REQUIREMENTS**

1. **EXPECTED ANNUAL RATE OF RETURN.** The desired investment objective is a long-term rate of return on assets based on the anticipated schedule on page 3 of this document. The target rate of return schedule is for the current year, for each of the next several years and for the long-term thereafter. The target rate of return schedule has been based on the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the Investment Guidelines. Because market performance varies and a fixed percent return may not be meaningful during some periods, the Board has established performance benchmarks for Managers, as set forth in the Internal Controls section of this Investment Policy. Over a complete business cycle, the Plan's overall annualized total return, after deducting investment and transaction costs, should perform above the median of an appropriate universe and above a customized index composed of various market indices weighted by the strategic asset allocation of the Plan's assets.

2. **THIRD-PARTY CUSTODIAL AGREEMENTS.** The securities should be held with a third party, and all securities purchased by, and all collateral obtained by, the board should be properly designated as an asset of the board. No withdrawal of securities, in whole or in part, shall be made from safekeeping except by an authorized member of the board or the board's 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, if applicable, to ensure the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

3. **MASTER REPURCHASE AGREEMENT.** All approved institutions and dealers transacting repurchase agreements shall execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to requirements of the Master Repurchase Agreement (where applicable).

4. **BID REQUIREMENT.** The board shall determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the most economically advantageous bid must be selected.

5. **PORTFOLIO COMPOSITION.** The Investment Guidelines establish parameters for investments and limits on security issues, issuers and maturities. Said Guidelines are commensurate with the nature and size of the funds within control of the Board. The Board believes the Plan's risk and liquidity posture are, in large part, a function of asset class mix. The Board has reviewed long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior.

6. **RISK AND DIVERSIFICATION.** The Investment Guidelines provide for appropriate diversification of the portfolio. Investments have been diversified to the extent practical to control risk of loss resulting from over concentration in a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold. The Board recognizes the difficulty of achieving the Plan's investment objectives in light of uncertainties and complexities of contemporary investment markets. The Board also recognizes some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's strong financial condition enables the Board to adopt a long-term investment perspective.

7. **INTERNAL CONTROLS.** The attached system of internal controls and operational procedures has been adopted by the Board and shall be reviewed by its independent certified public accountants as part of any financial audit of the Plan.

In addition, the Board has adopted the following internal controls with reference to selection and review of Money Managers:

- A. **Selection of Money Managers.** The Board, with assistance from the Investment Consultant, has selected, and will select, appropriate Money Managers to manage Plan assets. Managers must meet the following minimum criteria:
  - 1. Be a bank, insurance company, investment management company or investment adviser, as defined by the Investment Advisers Act of 1940.
  - 2. Provide historical quarterly performance numbers, calculated on a time-weighted basis, based on a composite of fully discretionary accounts of similar investment style, reported net and gross of fees.
  - 3. Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
  - 4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel.
  - 5. Clearly articulate the investment strategy to be followed and document the strategy has been successfully adhered to over time.
- B. **Duties and Responsibilities of Money Managers.** The duties and responsibilities of each Money Manager retained by the Board include:
  - 1. Managing Plan assets under its care, custody and/or control in accordance with this Investment Policy or in accordance with separate written agreements when modification is deemed prudent and desirable by the Board.



2. Exercising investment discretion (including holding cash equivalents as an alternative) within the objectives and guidelines set forth in this Investment Policy.
  3. Promptly informing the Board in writing regarding all significant and/or material matters and changes pertaining to the investment of Plan assets, including, but not limited to:
    - a. Investment Strategy
    - b. Portfolio Structure
    - c. Tactical Approaches
    - d. Ownership
    - e. Organizational Structure
    - f. Financial Condition
    - g. Professional Staff
    - h. Recommendations for Guidelines Changes
    - i. All legal, SEC and other proceedings affecting the firm
  4. Timely voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Plan as set forth herein. Each Manager shall keep a detailed record of said proxy voting and related actions and will comply with all regulatory obligations related thereto. Reports of such voting and actions shall be delivered to the Board no less frequently than quarterly.
  5. Utilizing the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use like activities for like retirement plans with like aims in accordance with all applicable laws, rules and regulations from local, state, federal and international political entities as they may pertain to fiduciary duties and responsibilities.
  6. Acknowledging and agreeing in writing to their fiduciary responsibility fully to comply with this entire Investment Policy, as same may be modified from time to time.
- C. Monitoring of Money Managers. Quarterly performance will be evaluated to test progress toward the attainment of long-term targets. The Board understands there may be short-term periods during which performance deviates from market indices. During such periods, greater emphasis shall be placed on peer performance comparison with managers employing similar styles.

From time to time, but no less than quarterly, the Board will meet to focus on:

1. Manager's adherence to this Investment Policy.
2. Material changes in the Manager's organization, investment philosophy and/or personnel.



3. Comparisons of Manager's results to appropriate indices and peer groups.
4. The risk associated with each Manager's portfolio, as measured by variability of quarterly returns (standard deviation), which should not exceed the benchmark index and the peer group without a corresponding increase in performance above the benchmark index and peer group.

In addition, the Board will annually focus on:

1. The Manager's performance relative to managers of like investment style or strategy. Each manager is expected to perform in the upper half of its respective style universe.
2. The Plan's investment performance results compared to the Manager's overall composite performance figures to determine unaccounted for dispersion between the Manager's reported results and the Plan's results.

The Board is aware that ongoing review and analysis of Money Managers is as important as the due diligence utilized during the manager selection process. Accordingly, a thorough review and analysis of the Money Manager will be conducted if:

1. A Manager performs in the bottom quartile of its peer group over an annual period.
2. A Manager falls in the "southeast quadrant" of the risk/return scattergram for a three or five-year period.

Further, a Manager may be replaced at any time and for any reason, including but not limited to the following:

1. A Manager consistently performs below the median of its peer group over rolling three-year periods.
2. A Manager has a negative alpha for any three-year period.

The following events also warrant immediate review of the Manager:

1. Changes in professional staff.
2. Significant loss of business.
3. Significant increase in business.
4. Change in ownership and/or control.

8. CONTINUING EDUCATION. All Board members are encouraged and expected to attend continuing education seminars concerning matters related to investments and responsibilities of Board members. Without limiting the foregoing, Board members are pre-authorized to attend any in-state seminars. Attendance at out-of-state seminars requires prior Board approval.

9. REPORTING. The Board shall submit an annual report to the City of Pompano Beach. The report shall include investments in the portfolio by class or type, income earned and market value. The annual report shall be available to the public.

10. FILING OF INVESTMENT POLICY. Upon adoption by the Board, this Investment Policy shall be promptly filed with the Florida Department of Management Services, the City of Pompano Beach and the Actuary. The effective date of this Investment Policy, and any amendment hereto, shall be 31<sup>st</sup> calendar day following the filing date with the City.

11. VALUATION OF ILLIQUID INVESTMENTS. Illiquid investments for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism shall be valued in accordance with Section 215.47(6), Florida Statutes, when those investments are utilized. Any asset without a fair market value shall be excluded from the determination of annual funding costs. The Board shall notify the Florida Department of Management Services and the City Auditor and Clerk of the City of Pompano Beach of each such asset.

## **VI. REVIEW OF INVESTMENT MANAGERS**

The Board will meet at least quarterly with the consultants and review investment results.

These reviews will focus on:

- the managers' adherence to the policy guidelines;
- comparison of managers' results against funds using similar policies (in terms of the diversification, volatility, and style);
- the opportunities available in equity and debt markets; and
- material changes in the managers' organizations, such as philosophical and personnel changes, acquisitions or losses of major accounts, etc.

## **VII. PERFORMANCE EXPECTATIONS**

The most important performance expectation is the achievement of investment results consistent with the Plan's investment policy statement. A 3.0% real return is a reasonable expectation in light of this policy. The Board recognizes this real return objective may not be attainable during some time periods, it is a long term goal. To ensure that investment opportunities available over a specific time period are fairly evaluated, the Board will use comparative performance statistics to evaluate investment results. Performance of the Plan will be compared to other funds utilizing a similar investment policy.

## **VIII. POLICY REVIEW**

Periodic reviews of the Policy Statement will be made by the Board to evaluate its appropriateness. Any modification of policy guidelines shall be approved by the Board of Trustees and acknowledged in writing by the investment managers

Adopted NOVEMBER 15, 2021

Signed   
Paul D. O'Connell, Chairman, Board of Trustees