

Financial Services  
Richard H. Hinds, Chief Financial Officer

**SUBJECT: REQUEST APPROVAL OF THE SUPPLEMENTAL EARLY RETIREMENT PLAN'S INVESTMENT POLICY STATEMENT TO PROVIDE PARAMETERS FOR THE INVESTMENT MANAGEMENT OF THE PLAN ASSETS BY PFM ASSET MANAGEMENT, LLC**

**COMMITTEE: INNOVATION, EFFICIENCY & GOVERNMENTAL RELATIONS**

**LINK TO STRATEGIC FRAMEWORK: FINANCIAL EFFICIENCY/STABILITY**

Approval is being requested to implement the investment plan and related policy statement proposed by PFM Asset Management, LLC (PFMAM) to be used for the purpose of managing the Supplemental Early Retirement Plan's (SERP) assets.

On August 7, 2013 the School Board approved the purchase of investment management services for the SERP from PFMAM. Prior to commencing the plan's management services, PFMAM completed an asset liability analysis in order to establish the appropriate investment strategy and develop an Investment Policy Statement. On 11/14/13 the Treasury Advisory Committee reviewed and recommended that the School Board approve the enclosed proposed SERP's Investment Policy Statement. The Investment Policy Statement will be used as the parameters for the investment advisor to follow in the course of discharging their duties as authorized in Board Policy 6144-Investments, Section I.

**RECOMMENDED:** That The School Board of Miami-Dade County, Florida approve the Supplemental Early Retirement Plan's Investment Policy Statement to provide parameters for the investment management of the plan assets by PFM Asset Management, LLC.

The SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA (the "Client") has established a defined benefit pension fund, known as the SUPPLEMENTAL EARLY RETIREMENT PLAN (the "Plan"). This Plan provides retirement benefits for those employees who meet the age and service requirements outlined in the plan document. The Plan consists of contributions from the Client. The Trustees of the Plan hereby adopt this Investment Policy Statement ("Policy Statement") for the following purposes, and in accordance with the School Board of Miami-Dade County Bylaws & Policies policy number 6144-Investments, Section I-Supplemental Early Retirement Plan ("Board Policies").

### **Purpose**

The main investment objective of the Plan is to achieve long-term growth of Plan assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Client's current and long-term pension obligations.

The purpose of this Policy Statement is to achieve the following:

1. Document investment objectives, performance expectations and investment guidelines for Plan assets.
2. Establish an appropriate investment strategy for managing all Plan assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Plan.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements that will effectively monitor investment results and ensure that the investment policy is being followed.
5. Comply with all fiduciary, prudence, due diligence and legal requirements for Plan assets.

### **Investment Authority**

The Client has appointed a Treasury Advisory Committee (the "Committee") to review and recommend certain policies and procedures related to the operation and administration of the Plan. The Treasurer will have authority to implement the investment policy and guidelines in a manner consistent with Board Policies after review and recommendation from the Committee, and in the best interest of the Plan to best satisfy the purposes of the Plan. In implementing this Policy Statement, the Board believes it may delegate certain functions to:

1. A discretionary investment advisor ("Advisor") to assist the Committee in the investment process and to maintain compliance with this Policy Statement. The Advisor will have responsibility for investing the portfolio or a part thereof, and will work with the Board and Committee to develop new parameters which embrace the permissible investments and allocation limits, which PFMAM and the Board agree upon for the investment of the portfolio.

The Advisor may assist the Committee in recommending investment policy, objectives, and guidelines; selecting investment managers ("Managers") or mutual funds and other common investment vehicles as specifically approved by the Committee from time to time ("Investments"); reviewing Managers and Investments over time; measuring and evaluating performance; and other tasks as deemed appropriate. The Advisor may also select Investments with discretion to purchase, sell, or hold specific securities that will be used to meet the Plan's investment objectives. Neither the Advisor nor any Manager shall ever take possession of any securities, cash or other assets of the Plan, all of which shall be held by the custodian. The Advisor must be registered with the Securities and Exchange Commission.

2. A custodian to maintain possession of physical securities and records of street name securities owned by the Plan, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales, among other duties. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Plan.
3. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others to assist the Board in meeting its responsibilities and obligations to administer Plan assets prudently.

### **Statement of Investment Objectives**

The investment objectives of the Plan are as follows:

1. To invest assets of the Plan in a manner consistent with Board Policies and the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Plan beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
2. To provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the Plan.
3. To conserve and enhance the value of Plan assets in real terms through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. To minimize principal fluctuations over the Time Horizon (as defined below).
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in this Policy Statement under the section labeled "Performance Expectations".

## Investment Guidelines

### Time Horizon

The Plan's investment objectives are based on a projected 12-year investment horizon ("Time Horizon"). Interim fluctuations should be viewed with appropriate perspective. The Board has adopted a long-term investment horizon such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

### Liquidity and Diversification

In general, the Plan will hold up to 3 months of cash, cash equivalent, and/or money market funds for near term Plan benefits and expenses (the "Plan Distributions"). All remaining assets will be invested in longer-term securities and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

### Asset Allocation

The Advisor believes that to achieve the greatest likelihood of meeting the Plan's investment objectives and the best balance between risk and return for optimal diversification, assets will be invested in accordance with the targets for each asset class as follows to attempt to achieve a long-term average total annual rate of return that is equal to or greater than the Plan's actuarial discount rate as described in the section titled "Performance Expectations".

<u>Asset Classes</u>	<u>Asset Weightings</u>	
	<u>Range</u>	<u>Target</u>
<b>Growth</b>		
Domestic Equity	29% - 49%	39%
International Equity	11% - 31%	21%
Other	0% - 15%	0%
<b>Income</b>		
Fixed Income	20% - 60%	36%
Cash Equivalent	0% - 20%	4%

Depending on the Plan's funded status and results of ongoing asset-liability analysis studies to be conducted at least every 3-years by the Advisor, it is the intention of the Advisor to recommend systematically migrating the asset allocation of the Plan toward a targeted global asset allocation of 100 percent fixed income over the 12-year time horizon, with appropriate targets and ranges for the various sub-classes shown above to be adjusted periodically upon the advice of the Advisor and

approved by the Committee. Any changes to the asset allocation will be documented in an addendum by the Advisor and approved by the Committee.

The Advisor and each Manager will be evaluated against their peers on the performance of the total funds under their direct management and reported to the Committee on a quarterly basis.

#### Rebalancing Philosophy

The asset allocation range established by this Policy Statement and revised from time to time based on the recommendations of the Committee represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Policy Statement ranges. When these divergences occur, the Advisor will rebalance, and cause the Managers to rebalance, the assets within the specified ranges.

#### Risk Tolerance

The Plan will be managed in a style that seeks to minimize principal fluctuations over the established Time Horizon and that is consistent with the Plan's investment objectives.

#### Performance Expectations

Over the long-term, a rolling five year period, the performance objective for the Plan will be to achieve an average total annual rate of return that is equal to or greater than the Plan's actuarial discount rate, which is currently stated at 6.75%. Additionally, it is expected that the annual rate of return on Plan assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Plan Investments and blended benchmark comparisons for the Plan in its entirety.

#### **Selection of Investment Managers**

The Advisor shall prudently select appropriate Managers to invest the assets of the Plan. Managers must meet the following criteria:

- The Manager must be a bank, insurance company, or investment adviser as defined by the Investment Advisers Act of 1940.
- The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS<sup>®</sup>), Securities & Exchange Commission ("SEC"), and Financial Industry Regulatory Agency ("FINRA") rules, as appropriate.
- The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most favored nation clauses). This information

can be a copy of a recent Request for Proposal (“RFP”) completed by the Manager or regulatory disclosure.

- The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- The Manager must confirm receipt, understanding and adherence to this Policy Statement and any investment specific policies by signing a consent form provided to the Manager prior to investment of Plan assets.

## **Guidelines for Portfolio Holdings**

### Direct Investments by Advisor

Every effort shall be made, to the extent practical, prudent and appropriate, to select Investments that have investment objectives and policies that are consistent with this Policy Statement (as outlined in following sub-sections of the “Guidelines for Portfolio Holdings”). However, given the nature of the Investments, it is recognized that there may be deviations between this Policy Statement and the objectives of these Investments.

### Limitations on Managers’ Portfolios

#### EQUITIES

No more than 5% of the total equity portfolio valued at market may be invested in the common equity of any one corporation, ownership of the shares of one company shall not exceed 2% of those outstanding, and not more than 25% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

*Domestic Equities.* Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the Manager.

*International Equities.* The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple regions and sectors.

#### FIXED INCOME

Fixed income securities of any one issuer shall not exceed 5% of a total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets shall be investment grade, based on the rating of one of the SEC’s Nationally Recognized Statistical Rating Organizations (“NRSROs”).

## ALTERNATIVES

Alternatives may consist of non-traditional asset classes such as real estate, inflation hedge and commodities, when deemed appropriate.

Real Estate: Consists of publicly traded REIT securities and/or non-publicly traded private real estate and shall be diversified across a broad array of property types and geographic locations. It is designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation. For private real estate, the illiquid, long-term nature should be considered.

Inflation Hedge: Shall consist of pooled vehicles holding among other assets: Treasury Inflation Protected Securities ("TIPS"), commodities or commodity contracts, index-linked derivative contracts and the equity of companies in businesses thought to hedge inflation.

### Cash Equivalents

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

### Portfolio Risk Hedging

Portfolio investments designed to hedge various risks including volatility risk, interest rate risk, etc. are allowed to the extent that the Investments do not create direct portfolio leverage. One example of a hedge vehicle is an exchange traded fund ("ETF") which takes short positions.

### Prohibited Investments

Except for purchase within authorized Investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, short sales, margin transactions, or private placements (with the exception of Rule 144A securities). Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles is also prohibited.

### Safekeeping

All assets of the Fund shall be held by a custodian approved by the Board. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Fund Agreement. Investments of the Fund not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

## **Control Procedures**

### **Review of Investment Objectives**

The Advisor shall review annually and report to the Committee the appropriateness of this Policy Statement for achieving the Plan's stated objectives. It is not expected that this Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in this Policy Statement.

### **Review of Investment Performance**

The Advisor shall report on a quarterly basis to the Committee to review the investment performance of the Plan. In addition, the Advisor will be responsible for keeping the Committee advised of any material change in investment strategy, Managers, and other pertinent information potentially affecting performance of the Plan.

The Advisor shall compare the investment results on a quarterly basis to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets. Examples of benchmarks and indexes that will be used include the S&P 500 Index for large cap equities, Russell 2000 Index for small cap equities, MSCI Europe, Australasia, and Far East (EAFE) Index for international equities, Barclays Capital Aggregate Bond Index for fixed income securities, and the U.S. 91 Day T-bill for cash equivalents.

### **Voting of Proxies**

The Advisor will vote the shares of the Investments, and Managers will vote securities in the respective portfolio managed by such Managers, consistently with its proxy policy and in the best interest of the Plan.

## **Adoption of Investment Policy Statement**

This Policy Statement will be adopted by the Board. Any changes and exceptions to this Policy Statement will be made in writing and adopted by the Board. Once adopted, changes and exceptions will be delivered to each Manager, as appropriate, by the Advisor.