CITY OF SANIBEL

RESOLUTION 13-093

A RESOLUTION APPROVING THE INVESTMENT POLICY STATEMENT ADOPTED BY THE BOARD OF TRUSTEES OF THE CITY OF SANIBEL GENERAL EMPLOYEES' RETIREMENT PLAN; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, City Council has previously approved the investment policy statement of the General Employees' Retirement Plan; and

WHEREAS, the general investment policy objective is to obtain a consistency of return of investments and the protection of assets; and

WHEREAS, the Board of Trustees of the General Employees' Retirement Plan recommend that the investment policy be amended to change the Model Hybrid Index that is used to evaluate the fund's total performance and to add Master Limited Partnerships (MLPs) to authorized domestic equity investments;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Sanibel, Florida:

SECTION 1. The investment policy statement of the General Employees' Retirement Plan, as amended, is hereby **APPROVED**. A copy of the amended investment policy statement is attached.

SECTION 2. Effective date. This resolution shall take effect immediately upon adoption.

DULY PASSED AND ENACTED by the Council of the City of Sanibel, Florida this 1st day of October, 2013.

AUTHENTICATION:

Kevin Ruane, Mayor	Pamela Smith, City Clerk

APPROVED AS TO FORM: _____ 9/25/13
Kenneth B. Cuyler, City Attorney Date

Vote of Council Members:

Ruane _____
Congress _____
Denham _____
Harrity _____
Jennings _____

Date filed with City Clerk: _____

SANIBEL GENERAL EMPLOYEES' RETIREMENT TRUST FUND
Investment Policy Statement

Approved:
Last Amended: 8/14/2013

1. SCOPE AND PURPOSE OF THE INVESTMENT POLICY STATEMENT

This investment policy shall apply to all funds under the control of the Board.

The Pension Board of Trustees maintains that an important determinant of future investment returns is the expression and periodic review of the Plan's investment objectives. To that end, the Trustees have adopted this Statement of Investment Policy.

In fulfilling their fiduciary responsibility, the Board recognizes that the Plan is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Plan are long-term, and that the investment policy should be made with a view towards growth and income performance over a number of years. The general investment objective, then, is to obtain a total rate of return - defined as interest and dividend income plus realized and unrealized capital gains and/or losses less investment expenses that achieves the actuarial interest rate assumption (6.75%) for the current year, for each of the next several years, and for the long term thereafter. The Board is mindful that this is a **closed** Plan and that managing investments to insure that cash is available to pay employee benefits and Plan expenses is an important objective.

2. INVESTMENT AND FIDUCIARY STANDARDS

In performing their investment duties, the Board, its money managers, and investment consultant shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1104 (a) (1) (A)-(C). That is, they must discharge their duties with respect to the Plan solely in the interest of the participants and beneficiaries

A. for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plan;

B. with the care, skill, prudence, and diligence under the circumstance then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aim; and

C. by diversifying the investments to minimize the risk of large losses.

EXHIBIT "A"

3. ASSET ALLOCATION AND REBALANCING PROCEDURE

The investment strategy of the Fund utilizes various investment approaches, as follows:

Expected Investment Approach	(Percent) Allocation	Min*	Max*
Large cap core value equity	11.5	7.0	13.0
Large cap core growth equity	11.5	7.0	13.0
Convertibles	10.0	0.0	12.0
Mid-cap core equity	8.0	6.0	11.0
Small-cap equity	7.0	6.0	10.0
International equity	15.0	7.0	25.0
Real estate	5.0	0.0	10.0
TIPS	2.0	0.0	5.0
Fixed income (bonds)	23.0	20.0	64.0
Infrastructure (MLP)	5.0	3.0	8.0
Cash equivalents	2.0	N/A	N/A
Total	100.0		

The Model Hybrid Index, as follows:

Russell 1000 stock index	23.0%
ML Convertible index	10.0
S&P 400 Mid-cap stock index	8.0
Russell 2000 stock index	7.0
MSCI EAFE	15.0
NCREIF ODCE index	5.0
Barclays TIPS index	2.0
Barclays US Aggregate 1-5 year Index	23.0
Infrastructure (MLP)	5.0
90-day Treasury	2.0
Total	100.0

Morgan Stanley Capital International Europe, Australasia, and Far East

Since market conditions will favor one approach over another, the asset allocation will require periodic rebalancing. Because the long-term approach of the Fund is to achieve blended returns of seven separate investment approaches, it is essential that relative weightings do not become over or under-allocated for long periods of time. The investment consultant and Board will consider adjusting the asset allocation.

4. PERFORMANCE MEASUREMENT STANDARDS AND EXPECTED ANNUAL RETURN

The Fund's money managers shall have full discretion in the selection and disposition of securities, but shall be limited by the investment standards and guidelines set forth in section 5 and by the funds available in their portfolios. The below listed performance measures will be used as objective criteria for evaluating the effectiveness of each investment product:

A. Total Fund Performance

1. The performance of the total Fund will be measured over rolling three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance will be compared to the return of the Model Hybrid Index defined in Section 3.

2. It is expected that the total Fund will rank in the top 40th percentile of an appropriate peer group.

3. On a relative basis, it is expected that each money manager's investment performance shall rank in the top 40th percentile of an appropriate universe over three and five-year periods.

B. Performance Standards

1. The large-cap *growth* equity product is expected to meet or exceed the return of the Russell 1000 Growth Index and rank within the top 40th percentile of an appropriate *growth* equity universe over three and five-year periods.

2. The large-cap *value* equity product is expected to meet or exceed the return of the Russell 1000 Value Index and rank within the top 40th percentile of an appropriate *value* equity universe over three and five-year periods.

3. The convertible securities product is expected to achieve the returns of the Merrill Lynch Convertible Index and rank within the top 40th percentile of an appropriate universe of three and five year periods.

4. The *mid-cap* equity product is expected to meet or exceed the return of the S&P Mid-cap 400 index, and rank within the top 40th percentile of an appropriate *mid-cap* equity universe over three and five-year periods.

5. The *small-cap* equity product expected to meet or exceed the return of the Russell 2000 index, and rank within the top 40th percentile of an appropriate *small-cap* equity universe over three and five-year periods.

6. The *international product* is expected to meet or exceed the return of the MSCI EAFE index and rank within the top 40th percentile of an appropriate *international* equity universe.

7. The private *real-estate* product is expected to meet or exceed the return of the NCREIF ODCE index and rank within the top 40th percentile of an appropriate *Real-estate* universe.

8. The *TIPS* portion is expected to earn returns of an appropriate index.

9. The short-duration *fixed-income* product is expected to meet or exceed the return of the Barclays US Aggregate 1-5 yr. Index Bond Benchmark and rank within the top 40th percentile of an appropriate fixed income universe.

10. The *infrastructure* product is expected to achieve the return of the Alerian MLP Infrastructure index and rank in the top 40th percentile of an appropriate universe (if available) over three and five year periods.

5. INVESTMENT GUIDELINES

Liquidity: The Fund's money manager(s) shall be kept informed of the liquidity requirements of the Plan. The investment portfolios shall be structured to provide sufficient liquidity to pay all benefit and expense obligations as they come due. Furthermore, the Fund shall maintain sufficient funding for unexpected developments, possible future increases in benefits and reduction of interest rates or total return from investments. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements. The Board shall retain cash in such amount as it may deem advisable.

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.

Risk and Diversification: Investments shall be diversified among various asset classes (categories) to the extent practicable to control risk of loss resulting from over concentration in a specific maturity, issuer, industry, instrument, dealer or bank through which financial instruments are bought and sold. The Board recognizes the uncertainty that is associated with achieving the Plan's investment objectives in light of the volatility of capital markets.

A. Authorized Investments. The following investments are authorized:

1. Cash Equivalents.

2. Obligations issued by the United States Government and its Agencies or obligations guaranteed as to principal and interest by the government of the United States.

3. Bonds or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or the District of Columbia provided the issues are traded over-the-counter (OTC) and shall hold a rating of Baa2/Mid BBB or above by Moody's and Standard & Poor's respectively. In the event of a split rating, the lower rating shall prevail. In the event of a downgrade, the Active Fixed Income Manager may hold up to 5% at market value of their total portfolio in bonds rated below Baa2/Mid BBB. The Active Fixed Income Manager shall notify Consultant in writing within ten (10) business days of any such downgrade.

4. Treasury Inflation Indexed Securities (TIPS) are limited to 1 to 10 year maturities.

5. Domestic equity investments (common stocks, MLPs, convertible bonds, convertible preferred issues, and preferred stock) issued by a corporation organized under the laws of the United States or the District of Columbia provided the corporation is listed on one or more of the recognized national exchanges or OTC. Convertible bonds, convertible preferred issues, and preferred stock will be deemed as equity and shall not be held to the same rating standards as fixed-income. Foreign securities convertibles are limited to those that settle in U. S. dollars and traded on one or more of the national exchanges or OTC.

6. Master limited partnerships with daily liquidity.

7. Domestic equity managers may only invest in foreign securities designated as American Depository Receipts (ADR).

8. International equities shall emphasize companies of developed countries.

9. Commingled stock, bond or money market funds whose investments are restricted to securities meeting the criteria outlined in Section 5, if possible.

10. Private Real Estate products valued no less than on a quarterly basis.

B. <u>Prohibited Investments and Limitations</u>

1. Investments in equities shall not exceed 70% of the Fund's assets at market.

2. Prohibited investments include those companies listed in the State Board of Administration's quarterly report, "List of Prohibited Investments (Companies)", under Protecting Florida Investments Act.

3. Equities: Not more than five percent (5%) of the Fund assets, based on market value, shall be invested in the securities of any one issuing company.

4. Non-government bonds: Investments in any one issuing company shall be limited to 1.5% of the total bond portfolio. Permitted fixed income securities rated below A3/A- shall be limited to 15% of the total bond portfolio.

5. Foreign issued fixed-income securities may not exceed 5% of the market value of the total Fund portfolio.

6. The aggregate investment in any one issuing company shall not exceed five percent (5%) of the outstanding capital stock of the company.

7. All short-term obligations must be rated A-1 and P-1 by Standard & Poor's and Moody's respectively. The issuer's long-term debt rating must have a minimum investment grade of "A".

8. All approved institutions and dealers transacting repurchase agreements will be required 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.

9. The following investments are prohibited:

    a. Bonds issued by any state or municipality or any other tax-exempt security
    b. Commodity futures
    c. Short sales
    d. General obligations issued by a foreign government
    e. Hedge funds
    f. Insurance annuities
    g. Repurchase agreements secured by anything but U.S. Government or Agency mortgage backed securities
    h. Margin purchase or lending or borrowing money
    i. Options
    j. Letter stock or private equity placements
    k. Private mortgages
    l. Securities lending (unless directed by the Board)
    m. Investments and assets for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism
    n. Securities of the money manager, the directed trustee/custodian bank, their parent or subsidiaries
    o. Foreign issued securities not traded in the United States

6. COMMUNICATIONS

A. The custodian shall apprise the Trustees of all transactions and shall forward all proxies to the money managers within ten calendar days of receipt. 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. On a quarterly basis, each money manager shall provide a written report affirming compliance with the security restrictions of Section 5 above and a summary of common stock diversification and attendant schedules. In addition, each money manager shall deliver every quarter a report detailing account balances and performance, adherence to the investment policy, forecast

of the market and economy, and portfolio analysis and characteristics. Written reports and personal presentations shall be delivered to the Trustees within 30 days of the end of the quarter, if possible. The manager will provide immediate written and telephone notice to the Trustees 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 5 above.

B. Each manager will disclose any securities that are not in compliance with Section 5 in each quarterly report.

C. If a money manager's account holds securities, which complied with Section 5 at time of purchase, which are subsequently downgraded while held, the manager will dispose of such securities immediately.

D. Each money manager's quarterly report will list separately any security whose value has diminished 15% from purchase price and explain in writing to the Board why such securities remain in the account.

E. The Board shall retain a monitoring service to evaluate and report on a quarterly basis the rate of return and relative performance of the Fund.

F. The Board will meet with the each money manager and review performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on an annual basis.

G. Each equity money manager shall report to the Trustees on a quarterly basis with respect to proxies, the issues, votes and dates, and if not voted, a written explanation.

7. SELECTION OF MONEY MANAGERS

The Board, with assistance from its investment consultant, has the authority to select appropriate money managers to manage Plan assets. Money managers must be either an investment management company or investment advisor as defined by the Investment Advisors Act of 1940, or an insurance company or a bank.

8. 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, as described in section 4. With this in mind, the following are adopted:

If, at any time, any one of the following occurs, the portfolio manager will be notified and warned of the Board's serious concern for the Plan's continued safety and performance.

A. Four consecutive quarters of quarterly investment performance being below the 40th percentile ranking.

B. A money manager falls within the "southeast quadrant" of the risk/return scattergram for a three or five-year period, of an appropriate benchmark.

C. Standard deviation for the account in excess of 120% of the manager's index.

D. A money manager has a three or five-year rolling investment return below that of the 40th percentile manager, within an appropriate universe.

E. A money manager has any significant change in professional staff, a large loss or increase in business or changes in ownership or control.

F. Any change in fundamental investment philosophy by the manager.

G. Failure to attain a 60% vote of confidence by the Board of Trustees.

H. Failure to observe the security quality restrictions in Section 5.

Not withstanding anything herein to the contrary, a money manager may be replaced at any time and for any reason.

9. MONITORING OF MONEY MANAGERS AND PERFORMANCE

Quarterly reports will evaluate the performance of the total Plan and each money manager. The Board understands that the performance of each style or category may vary over short-term periods.

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

A. Money manager's adherence to this Investment Policy.

B. Material changes in the money manager's organization, investment philosophy or personnel.

C. Comparisons of the money manager's results to the index and peer group described in Section 4.

D. The risk associated with each money manager's portfolio, as measured by the variability of quarterly returns (standard deviation), which should not exceed that of 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 the money manager's performance relative to its peers of like investment style or strategy. Each money manager is expected to perform in the upper 40th percentile of an appropriate universe over three and five-year periods and have results similar to its composite.

10. THIRD-PARTY CUSTODIAL AGREEMENTS

All assets shall be held by a third party, and all securities purchased by, and all collateral obtained by, the Board shall be properly designated as an asset of the Fund. No withdrawal of assets, in whole or in part, shall be made except upon authorization by the Board. 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 ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The custodian(s) is required to furnish statements at the end of each month.

11. INTERNAL CONTROLS

At the time of every financial audit, the CPA shall review the controls that should be designed to prevent loss of funds that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board.

Withdrawal of funds from the custody account may not be made without the signatures of two trustees, one of whom must be the Chairman or Vice-Chairman. The Board must approve all benefit payments and Plan expenses. These are listed on Warrants that are subject to approval at each Board meeting.

12. CONTINUING EDUCATION

All Board members are encouraged to attend continuing education seminars concerning matters related to investment and responsibilities of Board members.

13. REPORTING

Following the end of the fiscal year and completion of the financial statements, the City of Sanibel, as plan sponsor, will be provided with a report that shall include a list of investments in the portfolio by class or type. This report shall show the following information on each security: beginning cost, interest or dividends received, gain or loss on sales, ending cost and ending market value. Assets without a fair market value shall be excluded from determination of annual funding cost. Such report is a public record and will be made available upon request.

14. FLORIDA STATUTES 112.661 AND APPLICABLE CITY OF SANIBEL ORDINANCES

If at any time, this document is found to be in conflict with Chapter 112.661, Florida Statutes, or the applicable Sanibel Code, the Statutes and Code shall prevail.

15. REVIEW AND AMENDMENTS

It is the Trustees intention to review this document periodically and to amend this statement to reflect any changes in philosophy, objectives or guidelines. In this regard, the money 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 any portfolio manager feels that the specific objectives defined herein cannot be met, or the

guidelines constrict performance, the Trustees should be notified in writing. By initial and continuing acceptance of this Investment Policy Statement, the money manager concurs with the provisions of this document.

Once the Board has adopted the investment policy, the investment policy shall be promptly filed with the Department of Management Services, the plan sponsor, and the consulting actuary. The effective date of the Investment Policy Statement and any amendment thereto, shall be the 31st calendar day following the filing date with the plan sponsor.

BOARD OF TRUSTEES
SANIBEL GENERAL EMPLOYEES'
RETIREMENT TRUST FUND

Chairman
Date: 9/6/13