



AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING
Meeting Date: December 17, 2013

Agenda Item GN

Approvals:

City Manager PJS

Dept. Head CS

Attorney AS

Finance _____

Department: Finance and Administrative Services
Prepared By: Erik Sund, Assistant City Manager

Subject: *ANNUAL APPROVAL OF REVISED CITY PENSION INVESTMENT POLICY*

Fiscal Impact: There is no immediate, direct fiscal impact to the City in approving the revised policy. The change in the pension fund asset mix is anticipated to have a positive overall impact on the City's pension fund as well as the pension rate over time.

Summary: The City's pension investment policy is reviewed on an annual basis. The attached revised policy incorporates several refinements and reflects a change in the asset allocation mix. The investment "objectives" have been revised to "track" rather than exceed the various investment benchmarks. Also, a modification to the asset allocation mix is recommended to reduce the overall risk to the pension portfolio. The asset allocation change was recommended by the City's independent investment advisor and approved by the Pension Committee.

Background: The City Pension Investment Policy addresses the Committee's responsibilities, the City's pension investment philosophy, investment objectives, and asset allocation. This Policy is reviewed annually, and it is recommended that the policy be revised to better meet the needs of the City and current market conditions.

The Pension Committee is currently comprised of the City Manager, Assistant City Manager, and Assistant to the City Manager. The recommendation is to modify the makeup of the committee and have the Assistant to the City Manager replaced with the Human Resources Manager. Also, it is recommended to include three non-voting members, including a representative from the San Clemente City Employees Association, a retiree, and a representative of mid-managers.

The City has retained the firm of Wurts and Associates to provide independent financial advice, and the assets are managed by Advised Asset Group. Both of these firms reviewed and recommend a revised asset allocation mix and the addition of a new Absolute Return fund is being added to the mix.

- The most significant revisions to the proposed Pension Investment Policy include:
- Asset allocation changes: TIPS decreasing from 5% to 3%, Large Cap Equity decreasing from 35% to 32%, and the new Absolute Return fund comprising 5% of the assets.
 - Assets will "track" rather than exceed the benchmarks;
 - The City Pension Committee membership includes three non-voting members; and

- The Human Resources Manager replaces the Assistant to the City Manager on the Pension Committee.

Recommended

Action: STAFF RECOMMENDS THAT the City Council approve the revised Pension Investment Policy.

Attachment: 1. Revised Pension Investment Policy

Notification: San Clemente City Employees Association

6 N-2



POLICY AND PROCEDURE

Subject: City Pension Investment Policy	Index: Finance & Administrative Services Number: 202-2
Effective Date: December 18, 2013	Prepared By: Finance & Administrative Services
Supersedes: December 18, 2012	Approved By:

1.0 **PURPOSE:**

The purpose of the City's Pension Investment Policy is to establish: (1) an appropriate set of objectives and goals regarding the investment of the assets of the City of San Clemente Pension Plan (hereafter referred to as the Fund); and (2) investment policies and practices designed to permit the continuing financial obligations of the Fund to be satisfied justified.

2.0 **ORGANIZATIONS AFFECTED:**

All City departments/divisions

3.0 **REFERENCES:**

- Investment Advisory Act of 1940
- Civil Code Section 2261, et seq.
- Government Code Section 53600, et seq.
- Code of Ethics Policy, Administrative Policy #102-1

4.0 **POLICY:**

It is the policy of the City of San Clemente ("the City") to invest the retirement funds in a manner which will provide a market rate of return while meeting the financial obligations of the fund and conforming to all applicable State and City statutes governing the investment of public funds, as referenced in section 3.0

4.1.1 **Scope:** This investment policy applies to all financial assets of the City of San Clemente Pension Plan. These funds are accounted for in the semi-annual review by the City of San Clemente's Pension Committee.

4.1.2 **Statement of Responsibilities:** The following parties associated with the Fund shall discharge their respective responsibilities in accordance with all applicable fiduciary standards as follows: (1) in the sole interest of the Fund participants and beneficiaries; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims; and (3) by diversifying the investments so as to minimize the risk of large losses.

4.1.3 **City Pension Committee:** The members of the City Pension Committee are plan fiduciaries and have been delegated authority relating to the investments of the assets of the City of San Clemente Employee Retirement Plan ("the Plan"). The **voting** members of the Committee include: City Manager, ~~Finance & Administrative Services Director, and Assistant to the City Manager~~ **Assistant City Manager, and Human Resources Manager.** **Non-voting members include one (1) representative of the San Clemente City Employees Association, one (1) retiree of the City's pension plan, and one representative from the City's mid-management group. The three non-voting members are not included for purposes of obtaining a quorum.** Staff to the Committee will include the ~~Human Resources Manager and Financial Services~~ **Finance** Manager.

4.1.4 **Investment Managers:** The investment managers are delegated the responsibility of investing and managing the Fund's assets in accordance with this Investment Policy and all applicable laws. Each investment manager must either be: (1) registered under the Investment Company Act of 1940; (2) registered under Investment Advisors Act of 1940; (3) a bank, as defined in that Act; (4) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of Fund assets; or, (5) such other person or organization authorized by applicable law or regulation to function as an investment manager.

4.1.5 **Investment Consultant:** The investment consultant is charged with the responsibility of advising the City Pension Committee on investment policy, the selection of investment managers, and providing performance analysis and monitoring services.

4.2 **Statement of Investment Philosophy:**

4.2.1 **City Pension Committee:** The City Pension Committee is committed to: (1) protecting the corpus of the Fund; (2) obtaining adequate investment returns in order to protect and pay the benefits promised to the participants; (3) complying with applicable law; **and** (4) controlling administrative costs.

4.2.2 **The Fund:** The Fund shall be managed in a prudent manner recognizing risk and return trade-offs. While concerned with avoiding undue risk, the City Pension Committee is desirous of maximizing investment gains. Accordingly, consistent with safety of principal over the long term, investments shall be chosen to maximize the return on invested assets. Sufficient liquidity shall also be maintained to fund expenses and benefit payments.

4.3 **Investment Objectives:** The Investment Objectives for the Fund will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return gross of fees) ~~in excess of~~ **that tracks** the benchmarks established for the medium term (3 years) and long term (5 years).

4.3.1 **Medium Term Performance Objectives:**

4.3.1.1 **Total Fund Objective:** The objective of the total fund is to earn a return that ~~exceeds~~ **tracks** the return of the indices weighted in accordance with the current target asset allocation.

4.3.1.2 **Large Cap Equity:** The objective of the large cap equity segment of the Fund is to earn a return that exceeds the rate of return of the S&P 500 ~~Russell 1000~~ Index, ~~as well as the median equity return in a representative performance universe.~~

4.3.1.3 **Small Cap Equity:** The objective of the small cap equity segment of the Fund is to earn a return that ~~exceeds~~ **tracks** the rate of return of the Russell 2000 Index, ~~as well as the median equity return in a representative small cap performance universe.~~

4.3.1.4 **Fixed Income:** The objective of the fixed income segment of the Fund is to earn a return that exceeds the rate of return of the ~~Lehman Brothers~~ **Barclays Capital** Aggregate Bond Index as well as the median fixed income return in a representative performance universe.

4.3.1.5 **International Equity:** The objective of the international equity segment of the Fund is to earn a return that exceeds the rate of return of the MSCI EAFE Index as well as the median international equity return in a representative performance universe.

4.3.1.6 **Stable Value:** The objective of the stable value segment of the fund is to earn a return that exceeds the rate of return of the Bankers Trust 3 year GIC Index as well as the median GIC return in a representative performance universe.

4.3.2 **Long Term Performance Objectives:**

4.3.2.1 **Total Fund Return:** The objective of the total fund is to earn a return that meets or exceeds the actuarial assumption rate by 100 basis points.

4.3.2.2 **Rate of Return:** The objective of the total fund is to earn a return that exceeds the rate of return of the indices weighted in accordance with the current target asset allocation.

~~4.3.2.3 **Consumer Price Index:** The objective of the total fund is to earn a return that exceeds the annual change in the Consumer Price Index by 350 basis points.~~

4.4 **Asset Allocation:** The Asset Allocation of the Fund is set up to be rebalanced automatically on a quarterly basis ~~shall be reviewed at least annually to insure that the Current Allocation is in compliance with the following guidelines.~~

<u>Asset Class</u>	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Cash	0%	0%	5%
Core Fixed Income	20%	10%	30%
TIPS	53%	0%	10%
Small Cap Equity	5%	0%	10%
Large Cap Equity	3532%	25%	45%
International Equity	15%	0%	20%
Stable Value	20%	0%	40%
Absolute Return	5%	0%	5%
	100%		

4.6 **Investment Guidelines:** It is the intention of the City Pension Committee to allow each investment manager full investment discretion within the scope of these investment guidelines, the applicable Investment Manager Agreement, and any laws that supersede either of these documents.

4.7 **Liquidity:** The Fund's cash flow will be monitored on a regular basis by the City Pension Committee, and sufficient liquidity shall be maintained to fund benefit payment outflows. When withdrawals become necessary, the City Pension Committee will notify the investment managers as far in advance as possible to allow them sufficient time to acquire the necessary liquid reserves.

4.8 **Proxy Voting:** The investment managers shall have the sole and exclusive right to vote any and all proxies solicited in connection with the securities held by the Fund.

4.9 **Trading and Execution:** The investment managers shall use their best efforts to obtain execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates.

5.0 **DEFINITIONS:**

None

6.0 PROCEDURE:

Investment Performance Review and Evaluation:

- 6.1.1 **Pension Committee:** The City Pension Committee will review the investment results of the investment managers at least semi-annually. Performance comparisons will be made against a representative performance universe and the performance objectives set forth in this policy statement.
- 6.1.2 **Review of Investment Manager:** The City Pension Committee, with the assistance of the investment consultant shall periodically review the qualitative developments of each investment manager. This evaluation should include: Changes in ownership, personnel turnover, adherence to investment style and philosophy, and any other qualities that the City Pension Committee deem appropriate. This review should also include an assessment as to whether each investment manager has operated within the scope of this Investment Policy.
- 6.1.3 **Disclosures:** ~~The investment managers must disclose all major changes in organization or investment philosophy to the City Pension Committee members within 30 days.~~ Further, all registered investment advisors must present updated ADV-2 forms on an annual basis to the City Pension Committee and Investment Consultant.
- 6.1.4 **Investment Manager Accountability:** The City Pension Committee is desirous of holding each investment manager accountable for the performance of the assets over which they exercise discretion. If an investment manager fails to accomplish the investment objectives as set forth in this Investment Policy over a market cycle (typically three to five years), ~~the City Pension Committee will notify the investment manager in writing that they have failed to accomplish the performance objectives and that the City Pension Committee has placed them on probation.~~ The City Pension Committee will continue to monitor the investment results until they determine that removal of probation or termination of the investment manager is warranted. The City Pension Committee still reserves the right to terminate investment managers if they violate this Investment Policy, experience personnel or organizational changes, or if the City Pension Committee determines that a change of investment managers is in the best interests of Plan participants.
- 6.2 **Internal Control:** In conjunction with the City's independent annual financial audit, a review of actual and documented internal controls of the City's investment program will be conducted. The review will assure that internal controls are adequate and assure compliance with policies and procedures.
- 6.3 **Policy Changes:** The investment consultant shall advise the City Pension Committee of any restrictions within this Investment Policy which may prevent the

6N-7

investment manager(s) from obtaining the objectives and goals set forth herein. Any violation of the investment guidelines or other sections of this Investment Policy discovered by the investment consultant in the preparation of its regular performance review shall be reported immediately to the City Pension Committee and discussed at their next regularly scheduled meeting.

- 6.4 **Review and Revisions:** The City Pension Committee reserves the right to amend the Investment Policy at any time they deem such amendment to be necessary, or to comply with changes in federal **and/or state** law as these changes affect the investment of the Fund's assets. This policy will be reviewed, revised as necessary on an annual basis by the City Pension Committee **and any modifications made thereto must be recommended by the Committee and approved by the City Council**

AUTHORIZED INVESTMENT MANAGERS

STATE STREET GLOBAL ADVISORS (SSGA)

Russell 1000 Index

I. Investment Assignment

~~SSGA will be given full discretion within the scope of these mutually agreed upon investment guidelines. SSGA will be responsible for reviewing these guidelines with the City Pension Committee at least annually to assure they remain prudent. SSGA shall discharge its management in a prudent manner, always keeping the best interest of the participants clearly in mind.~~

Individual investment options will be managed by professional money managers, who will be responsible for all decisions surrounding the purchase and sale of individual securities. The Pension Investment Committee recognizes that portfolio size, cost considerations, and the time and expertise required to oversee portfolio investments should all play a role in determining what type of investment vehicles may be most appropriate to use in the Plan; given the foregoing considerations, the Committee has decided to invest primarily in commingled/pooled vehicles. Such options include, but are not limited to, those managed by banks (collective trusts), insurance companies, and registered investment companies (mutual funds). By investing in pooled funds, the Committee recognizes that each fund's investments are made in accordance with fund-specific portfolio guidelines, which may change over time. Therefore, these guidelines will be reviewed on no less than an annual basis to ensure they continue to meet the needs of the Plan portfolio.

II. Investment Objectives

The investment objectives for SSGA will be for the asset value exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in line with the benchmarks established for the long term (5 years). The total equity segment of the portfolio is to track the Russell 1000 Index as well as the median equity return in a representative performance universe.

III. Allowable Securities

The allowable securities shall be solely comprised of shares of the SSGA Russell 1000 Index. Investments made by SSGA must be consistent with the current SSGA Russell 1000 Index Fund prospectus. Should the allowable securities permitted under subsequent prospectuses change, it is the responsibility of SSGA to promptly notify the City Pension Committee in writing.

STATE STREET GLOBAL ADVISORS (SSGA)

Russell 2000 Index

I. Investment Assignment

SSGA will be given full discretion within the scope of these mutually agreed upon investment guidelines. SSGA will be responsible for reviewing these guidelines with the City Pension Committee at least annually to assure they remain prudent. SSGA shall discharge its management in a prudent manner, always keeping the best interest of the participants clearly in mind.

II. Investment Objectives

The investment objectives for SSGA will be for the asset value exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in line with the benchmarks established for the long term (5 years). The total equity segment of the portfolio is to track the Russell 2000 Index as well as the median equity return in a representative performance universe.

III. Allowable Securities

The allowable securities shall be solely comprised of shares of the SSGA Russell 2000 Index. Investments made by SSGA must be consistent with the current SSGA Russell 2000 Index Fund prospectus. Should the allowable securities permitted under subsequent prospectuses change, it is the responsibility of SSGA to promptly notify the City Pension Committee in writing.

DODGE & COX
International Stock Fund

I. Investment Assignment

Dodge & Cox will be given full discretion within the scope of these mutually agreed upon investment guidelines. Dodge & Cox will be responsible for reviewing these guidelines with the City Pension Committee at least annually to assure they remain prudent. Dodge & Cox shall discharge its management in a prudent manner, always keeping the best interest of the participants clearly in mind.

II. Investment Objectives

The investment objectives of the Dodge & Cox will be for the asset value, exclusive of contributions or withdrawals, to grow over the medium term (3 years) and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return gross of fees) that exceeds the rate of return of the EAFE Index as well as the median equity return in a international performance universe.

III. Allowable Securities

The allowable securities shall be solely comprised of shares of the Dodge & Cox International Stock Fund. Investments made by Dodge & Cox must be consistent with the current Dodge & Cox International Stock Fund prospectus. Should the allowable securities permitted under subsequent prospectuses change, it is the responsibility of Dodge & Cox to promptly notify the City Pension Committee in writing.

PIMCO

PIMCO Total Return Fund

I. Investment Assignment

PIMCO will be given full discretion within the scope of these mutually agreed upon investment guidelines. PIMCO will be responsible for reviewing these guidelines with the City Pension Committee at least annually to assure they remain prudent. PIMCO shall discharge its management in a prudent manner, always keeping the best interest of the participants clearly in mind.

II. Investment Objectives

The investment objectives for PIMCO will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of the benchmarks established for the long term (5 years). The Total Portfolio is to exceed the Barclays Capital Aggregate Bond Index as well as the median return in a representative fixed income performance universe.

III. Allowable Securities

The allowable securities shall be solely comprised of shares of PIMCO Total Return Fund. Investments made by PIMCO must be consistent with the current PIMCO Total Return Fund prospectus. Should the allowable securities permitted under subsequent prospectuses change, it is the responsibility of PIMCO to promptly notify the City Pension Committee in writing.

STATE STREET GLOBAL ADVISORS (SSGA)

Treasury Inflation Protected Securities (TIPS) Fund

I. Investment Assignment

SSGA will be given full discretion within the scope of these mutually agreed upon investment guidelines. SSGA will be responsible for reviewing these guidelines with the City Pension Committee at least annually to assure they remain prudent. SSGA shall discharge its management in a prudent manner, always keeping the best interest of the participants clearly in mind.

II. Investment Objectives

The investment objectives for SSGA will be for the asset value exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in line with the benchmarks established for the long term (5 years). The Total Portfolio is to track the Barclays Capital US TIPS Index as well as the median return in a representative fixed income performance universe.

III. Allowable Securities

The allowable securities shall be solely comprised of shares of the SSGA TIPS Fund. Investments made by SSGA must be consistent with the current SSGA TIPS Fund prospectus. Should the allowable securities permitted under subsequent prospectuses change, it is the responsibility of SSGA to promptly notify the City Pension Committee in writing.

GREAT-WEST

Defined Benefit Guaranteed Portfolio

I. Investment Assignment

Great- West will be given full discretion within the scope of all applicable law relating to the investment of assets of an insurance company in their Defined Benefit Guaranteed Portfolio. Great- West shall discharge its management in a prudent manner.

II. Investment Objectives

The investment objectives of the Defined Benefit Guaranteed Portfolio of Great- West will be for the asset value, exclusive of contributions or withdrawals, to grow over the medium term (3 years) and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return gross of fees) that exceeds the rate of return of the 3-Year GIC Index as well as the median return in a Stable Value Funds performance universe.

III. Allowable Securities

The allowable securities shall be solely comprised of shares of the Defined Benefit Guaranteed Portfolio of Great- West. Investments made by the Defined Benefit Guaranteed Portfolio of Great- West must be consistent with the current Defined Benefit Guaranteed Portfolio investment policies as described by Great-West to the City Pension Committee. Should the allowable securities permitted under subsequent policies change, it is the responsibility of The Great- West to promptly notify the City Pension Committee in writing.

PIMCO

All Asset All Authority Strategy (Absolute Return)

I. Investment Assignment

PIMCO will be given full discretion within the scope of all applicable law relating to the investment of assets in this strategy. PIMCO shall discharge its management in a prudent manner.

II. Investment Objectives

This actively-managed fund includes both traditional and nontraditional asset classes. This fund is designed to provide inflation hedging, diversification, and potential for compelling long-term return. The use of leverage and short exposure is designed to enhance returns, yet is developed to reduce risk.

III. Allowable Securities

The allowable securities shall be solely comprised of shares of the PIMCO All Asset All Authority Fund. Investments made by PIMCO must be consistent with the current PIMCO All Asset All Authority Fund prospectus. Should the allowable securities permitted under subsequent prospectuses change, it is the responsibility of PIMCO to promptly notify the City Pension Committee in writing.