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## **STATEMENT OF INVESTMENT POLICY AND OBJECTIVES**

**For The**

***CITY OF SARASOTA GENERAL EMPLOYEES' PENSION PLAN***  
***September 25, 2023***

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

The City of Sarasota General Employees' Pension Plan is a defined benefit plan established by Ordinance of the City of Sarasota to provide retirement benefits for its employees. The City of Sarasota is the "plan sponsor". The Plan is administered by the General Employees' Pension Plan 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 Sarasota, Employees' contributions, interest income and other income in accordance with the underlying Plan documents.

The Board of Trustees is charged by Ordinance 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 or plan'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 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:

<b>TRADITIONAL ASSET CLASSES</b>		
<b>EQUITY</b>	<b><u>% Range</u></b>	<b><u>% Target</u></b>
Large Capitalization Value Manager	20.00 – 10.00%	15.0%
Large Capitalization Growth Manager	20.00 – 10.00%	15.0%
Small Capitalization Value Manager	15.00 – 5.00%	10.0%
Small Capitalization Growth Manager	15.00 – 5.00%	10.0%
International Value Manager	10.00 – 0.00%	7.5%
International Growth Manager	10.00 – 0.00%	7.5%
Total Equity	70.00 – 55.00%	65.0%
FIXED INCOME MANAGER(S)	35.00 – 15.00%	<u>20.0%</u>
<b>TOTAL TRADITIONAL</b>		<b>85.0%</b>
<b>ALTERNATIVE ASSET CLASSES</b>		
	<b><u>% Range</u></b>	<b><u>% Target</u></b>
PRIVATE REAL ESTATE FUND	15.0 – 0.0%	10.0%
INFRASTRUCTURE	10.0 – 0.0%	<u>5.0%</u>
<b>TOTAL ALTERNATIVE ASSET CLASSES</b>	20.0 – 0.0%	<u>15.0%</u>
<b>TOTAL TRADITIONAL &amp; ALTERNATIVE</b>		<b>100.0%</b>

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, then 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. In addition, the plan administrator will rebalance the portfolio to within the policy range quarterly.

The General investment objectives of the Board are as follows:

***1. Establish a Prudent Investment Program***

Although the Pension Fund 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 Pension Fund; 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 of return. In addition, the Fund should earn a return greater than inflation, as measured by the Consumer Price Index, by 4.0% per year. It is also 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. 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. PASSIVE INVESTMENT VEHICLES**

The Board may select a passive approach to invest in a particular asset class. This may be accomplished by using open-end mutual funds, Exchange Traded Funds (ETFs), or Separately Managed Accounts. The criteria used for active manager evaluation will not apply to passive investments. Investments may be made in Exchange Traded Funds (ETFs) on an interim basis during manager searches for actively managed asset classes.

#### **C. COMPLIANCE WITH CHAPTER 2023-28, LAWS OF FLORIDA**

The Board and its investment managers shall comply with the applicable requirements of Chapter 2023-28, Laws of Florida, including Section 112.662.

1. Definition of pecuniary factor: The term “pecuniary factor” is defined as a factor that an investment fiduciary “prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with the investment objectives and funding policy of the retirement system. The term does not include the consideration of the furtherance of any social, political, or ideological interests.” [112.662(1)]
2. Exclusive consideration of pecuniary factors: Only pecuniary factors may be considered and the interests of the participants and beneficiaries of the system may not be subordinated to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns. [112.662(2)]
3. Proxy voting: Only pecuniary factors may be considered when voting proxies. [112.662(3)]
4. Filing requirements: The Board shall timely comply with the reporting requirement of Section 112.662 by filing a comprehensive report by December 15 of each odd-numbered year. [112.662(4)]. Investment managers and the Board’s investment consultant shall assist in the preparation of required reports and shall annually confirm to the Board their compliance with Chapter 2023-28, if applicable.

5. Contracting and external communication requirements: Manager contracts shall comply with Section 215.855 as follows:

Any written communication made by an investment manager to a company in which such manager invests public funds on behalf of the Board must include the following disclaimer in a conspicuous location if such communication discusses social, political, or ideological interests; subordinates the interests of the company's shareholders to the interest of another entity; or advocates for the interest of an entity other than the company's shareholders:

The views and opinions expressed in this communication are those of the sender and do not reflect the views and opinions of the people of the State of Florida.

#### **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. The equity position in any one company shall not exceed 5% of the total portfolio at market. For international investing, ADR's that trade over the counter, such as "Pink Sheet" ADR's and Bulletin Board ADR's are permissible. Any investment not in the category listed above is prohibited.

The equity portion of each portfolio manager shall not:

1. Make short sales.
2. Use margin or leverage.
3. Be invested in commodities.
4. Be invested in private real estate (except for private real estate fund manager utilized as described in section F.)
5. Be invested in " investment art objects."
6. Invest in Options, including the purchase, sale or writing of options unless options are "covered" by the corresponding security.
7. 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.

a.) Large Capitalization Value & Growth Stocks

Large capitalization stocks are expected to have the greatest weighting in the Pension Fund. They are expected to provide more consistent returns over time than our other equity styles. The objective for active investment managers 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 performance parameters for active managers include the following:

- Performance within the top half of a Universe of Large Capitalization Value or Growth Managers.
- Performance comparable to the Russell 1000 Value or Russell 1000 Growth Indexes.
- Performance comparable to the S&P 500 Stock Index. (Market & Equal-Weighted)
- 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.

b.) Small Capitalization Value & Growth Stocks

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

Small capitalization equity performance parameters for active managers include the following:

- Performance within the top half of a Universe of Small Capitalization Value or Growth Managers.
- Performance comparable to the Russell 2000 Value or Russell 2000 Growth Indexes.

- 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 for the mid/small capitalization market.

c.) International Stocks

International Stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective for active managers is to maximize investment return over a market cycle by investing in international securities through American Depository 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.

International equity performance parameters for active managers include the following:

- Exceed the MSCI All Country World ex. USA or MSCI EAFE – Net Dividend 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 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 three highest classifications by a major rating service. The credit quality restriction only applies to individually held bonds. Such investments shall be in accordance with the Code of the City of Sarasota. Any investments not meeting the criteria listed above are prohibited from being purchased. Securities ratings reduced beneath the three 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 the highest quality (A-1 or P-1).
3. Private placement debt is not permissible.

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

- Performance comparable to the appropriate Bloomberg fixed income index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the comparison 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. 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. 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. 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 .
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed the comparison 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.

## **G. 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:

- Performance comparable to the Dow Jones Brookfield Infrastructure Composite Index commensurate with the recognized level of risk.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

## **H. COMMUNICATIONS**

The Manager is expected to provide a written report each quarter detailing the fund's performance, adherence to guidelines, portfolio analysis and current assets of the Fund. The manager may also provide any commentary and/or forecast of the the market and the economy if they choose. In addition, the Manager will be requested to make oral presentations to the Board of Trustees.

The Manager will provide immediate written and telephone notice to the appropriate plan representative and the Consultant of any significant event, specifically but not limited to the resignation, termination or incapacity of any senior personnel.

Since proxy votes may be considered an asset of the Plan, the Manager shall have the fiduciary duty to vote the proxies attendant to the Plan's ownership of equity securities. The Manager shall exercise such proxies solely in the interest of the fund's performance for the exclusive purpose of providing benefits to participants and beneficiaries. The Manager shall forward written reports of its voting activities and shall make available upon request documentation relating to the handling and voting of proxies.

**I. STATE MANDATED REQUIREMENTS**

1. **EXPECTED ANNUAL RATE OF RETURN.** For each actuarial valuation, the board shall determine the total expected annual rate of return for the current year, for each of the next several years, and for the long term thereafter. This determination must be filed promptly with the Department of Management Services and with the plan's sponsor and the consulting actuary.

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. **INTERNAL CONTROLS.** The board shall establish a system of internal controls which shall be in writing and made a part of the board's operational procedures. The policy shall provide for review of such controls by independent certified public accountants as part of any financial audit periodically required of the board's unit of local government. The internal controls should be designed to prevent losses of funds which might arise from fraud, error, misrepresentation by third parties, or imprudent actions by the board or employees of the unit of local government.

6. **CONTINUING EDUCATION.** The continuing education of the board members in matters relating to investments and the board's responsibilities is required.

7. **REPORTING.** Appropriate annual or more frequent periodic reports of the investment activities shall be prepared for submission to the City Auditor and Clerk of City of Sarasota. The reports shall include investments in the portfolio

by class or type, book value, income earned, and market value as of the report date. Such reports shall be available to the public.

8. **FILING OF INVESTMENT POLICY.** Upon adoption by the board, the investment policy shall be promptly filed with the Florida Department of Management Services and the City of Sarasota and consulting actuary. The effective date of the investment policy, and any amendment thereto, shall be the 31st calendar day following the filing date with the City Auditor and Clerk of City of Sarasota.

9. **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 Sarasota of each such asset.

#### **J. REVIEW OF INVESTMENT MANAGERS**

The Board will meet at least semiannually with the consultants. Additionally, the Board will review investment results quarterly.

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, style, etc.);
- 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.

#### **K. PERFORMANCE EXPECTATIONS**

The most important performance expectation is the achievement of investment results consistent with the Plan's investment policy statement. A 4.0% 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. In order to ensure 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.

**L. 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 9/25/2023 Signed   
Date Chairman

## Investment Manager's Acknowledgment

I, the undersigned, acknowledge I have received the policy statement for the City of Sarasota General Employees' Pension Plan, dated 9/25/2023. I affirm I have read and understand said Policy Statement, and do hereby agree to abide to the guidelines expressed in the Policy Statement.

Name of Firm \_\_\_\_\_

Signed \_\_\_\_\_

Date \_\_\_\_\_

