

TOWN OF BAY HARBOR ISLANDS

**MORRIS N. BROAD
COMMUNITY CENTER
1175 95TH STREET
BAY HARBOR ISLANDS,
FLORIDA 33154**

**Employees Retirement System
Board of Trustees Meeting
June 4, 2024**

CALL TO ORDER: Set for 8:00 a.m.

ROLL CALL

1. **Review and Approval** of the Investment Policy for the Town of Bay Harbor Islands' Pension Fund in accordance with Section 16-75 of the Town Code. Enclosed is a copy of the policy.

CONSENT AGENDA (Items of a routine nature; any Board member may request separate consideration of any item on the consent agenda):

END OF CONSENT AGENDA

ADJOURNMENT

AGENDA ITEM REPORT

June 4, 2024

ITEM NUMBER: 1.

ITEM: Review and Approval of the Investment Policy for the Town of Bay Harbor Islands' Pension Fund in accordance with Section 16-75 of the Town Code. Enclosed is a copy of the policy.

DESCRIPTION:

Changes were made pursuant to ESG House Bill 3 (Chapter 112.662 Florida Statutes) which requires Pension Boards to make their investments based on pecuniary facts, similar to fiduciary. Pursuant to Section 112.662, Florida Statutes, the different requirements have to be added to the Investment Policy and be reported to the Division of Retirement on a biannual basis. Changes to the policy includes reference to the regulatory requirements, reference to Section 112.662, and a definition of pecuniary.

The policy was submitted for the Board's review at the November 8, 2023 meeting.

RECOMMENDED ACTION:

FINANCIAL ANALYSIS:

BUDGET IMPACT:

Submitted By: Yvonne Hamilton, Town Clerk

ATTACHMENTS

1. BHI Investment Policy 11-23

Investment Policy
for:

**TOWN OF BAY HARBOR ISLANDS'
PENSION FUND**

November, 2023

The Town of Bay Harbor Islands' Pension Fund has been created and funded by the Town of Bay Harbor Islands as plan sponsor to provide retirement benefits for those employees who through their years of service have earned a right to a pension benefit. A Board of Trustees who shall be fiduciaries to the Plan shall administer this Fund. The purpose of this fund is to provide for the accumulation and distribution of money in an actuarially sound fashion over the years of the employees' service and subsequent retirement. This document is designed to set forth the policies and guidelines for those who administer and invest the funds in the portfolio and apply to all funds under the control of the Board of Trustees.

Although this fund is not subject to the Employee Retirement Income Security Act (ERISA), Florida Statutes state that the Board and all of its agents comply with the standards set forth in the Act of 1974 at 29 U.S.C. 1104(a)(1)(A)-(C). Therefore, all of the individuals associated with the plan should act within the confines of that statute. Where not specifically indicated, the actions and/or decisions of the individuals are to be governed by the prudent man rule.

This investment policy shall cover the entire portfolio as well as all investment managers and shall be filed with the city, the Plan's actuary, and the Department of Management Services.

REGULATORY REQUIREMENTS

Since the Town of Bay Harbor Islands' Pension Fund is a qualified defined benefit plan as defined and set forth by Florida Statutes, investment procedures and restrictions stipulated under these regulations must be followed and any other investments are prohibited.

Additionally:

EVERY FIDUCIARY SHALL:

- Discharge his or her duties for the exclusive purpose of providing benefits to the Town of Bay Harbor Islands' Pension Fund members and their beneficiaries and defraying reasonable expenses of administering the Plan;
- Act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims;
- Diversify investments of the Town of Bay Harbor Islands' Pension Fund so as to minimize the risk of large losses unless under the circumstances it is clearly not prudent to do so, and;
- Operate in accordance with the Town of Bay Harbor Islands' Pension Fund procedures, documents and instruments.

NO FIDUCIARY SHALL:

- Deal with the Town of Bay Harbor Islands' Pension Fund assets for his or her own account or his or her own interest, and/or;
- Act in any matter affecting the retirement system on behalf of any person or organization whose interests are adverse to the interests of the Town of Bay Harbor Islands' Pension Fund, its members or beneficiaries.

The Fund shall be governed by a set of written internal controls and operational procedures that shall be periodically reviewed by the Fund's Certified Public Accountant.

The Board shall retain an independent Certified Public Accountant on an annual basis as well as require reports from the Fund's investment consultant quarterly. This policy is designed to safeguard the Fund from losses that might arise from fraud, error or misrepresentations by third parties, or imprudent actions by the Board or employees of the plan sponsor.

The Board and its Investment Managers shall comply with the applicable requirements of Chapter 203-28, Laws of Florida, including Section 112.662, along with regulations adopted by the Department of Management Services. The term "pecuniary factor" is defined as a factor that a named 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 investment program. The term does not include the consideration of the furtherance of any social, political, or ideological interests." [112.662(1)]. In selecting Investment Managers, 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)].

The Board shall timely comply with the reporting requirements of Section 112.662 by filing a comprehensive report by December 15th of each odd-numbered year. Investment managers and the investment consultant shall assist in the preparation of the required reports to the extent necessary to ensure their compliance with Chapter 203-28.

Should the Board engage with an investment consultant, the investment consultant will provide investment managers for consideration based solely on pecuniary factors as defined by Florida Statute Sec. 112.662.

OVERALL GOAL

In accordance with the Funds actuarial report, the Trustees have established short and long-term goals for the overall investment portfolio consistent with the liabilities of the Fund. At a minimum, the Fund in aggregate shall earn a compound annualized rate of return over time of 6.0% while minimizing the risk of loss in any one period.

While the Trustees acknowledge that market conditions can produce periods where such returns are difficult to achieve, the advisor is expected to contribute to meeting the long term objectives of the plan as well as others set forth in this document.

ASSET ALLOCATION

The Board of Trustees has adopted the following asset allocation:

	<u>% allocated</u>	<u>Corresponding Index</u>
Domestic Stocks	40.0%	Russell 3000 Index
Domestic Bonds	30.0%	Barclay's Aggregate Bond Index
International Stocks	15.0%	MSCI EAFE Index.
Real Estate	15.0%	NCREIF

Although cash is not included in the asset allocation of the Fund, the Trustees realize the need to provide liquidity to pay obligations as they come due. Surplus cash flows, additional contributions, and investment manager cash will be utilized to pay obligations of the Fund and periodic re-balancing of the assets. The Fund's investment manager(s) shall be kept informed of the liquidity requirements of the Fund, and to the extent possible, avoid untimely sales of assets which could be detrimental to the performance of the Plan.

MANAGEMENT STRUCTURE

To diversify plan assets so as to minimize the risk associated with dependence on the success of one enterprise, the Board of Trustees has decided to employ a multi-manager team approach to investing plan assets.

Asset managers will be employed to utilize individual expertise within their assigned area of responsibility. Each manager will be governed by individual investment guidelines. Separate manager guidelines for each investment manager shall serve as addenda to the Policy.

Assets without a fair market value must be excluded from determination of annual funding costs. Illiquid investments for which there are no generally recognized market or consistent accepted pricing mechanism will be priced at cost.

The asset management structure is currently as follows:

	<u>Target</u>	<u>MINimum</u>	<u>MAXimum</u>
<u>Domestic Stocks</u>	<u>40.0%</u>	<u>30.0%</u>	<u>50.0%</u>
Rhumblin Advisors (S&P 500 Index)	25.0	n/a	n/a
Rhumblin Advisors (S&P 400 Index)	7.5	n/a	n/a
Rhumblin Advisors (S&P 600 Index)	7.5	n/a	n/a
<u>Domestic Bonds</u>	<u>30.0%</u>	<u>25.0%</u>	<u>60.0%</u>
Garcia, Hamilton, Jackson & Assoc.	30.0	25.0	35.0
<u>International Stocks</u>	<u>15.0%</u>	<u>0.0%</u>	<u>20.0%</u>
Highland Capital Management	10.0	0.0	15.0
Glovista Investments	5.0	0.0	7.5
<u>Real Estate</u>	<u>15.0%</u>	<u>0.0%</u>	<u>20%</u>
American Realty Core Property Fund	15.0	0.0	20.0

MASTER REPURCHASE AGREEMENTS

All approved institutions that transact repurchase agreements on behalf of the Fund, including short-term investments by the Funds' custodian, shall execute and adhere to the requirements of the Master Repurchase Agreement.

BROKERAGE

Investment managers shall use their best efforts to ensure that portfolio transactions are placed on a >best execution= basis. Notwithstanding the foregoing, the Trustees reserve the right to direct any or all of the brokerage commissions associated with the portfolio for the purposes of securing research and related services for the benefit of the Plan and its participants. Brokerage transactions should not be directed to any firm if in doing so, taking all factors into consideration, the Fund will incur a disadvantage with respect to the market price of the security. Further, irrespective of any obligations to pay for services engaged by either the advisor or the Trustees, only transactions that would normally be made for the Fund in the absence of such obligations should be executed.

PROXY VOTING

Responsibility for the exercise of ownership through proxy solicitation shall rest solely with the investment managers. Guidelines for voting proxies will be listed in individual manager guidelines.

THIRD-PARTY CUSTODIAL AGREEMENTS

The Board shall retain a third party to custody the fund's assets. All securities shall be designated as an asset of the Board and no withdrawal of securities, in whole or in part, shall be made from safekeeping except by an authorized member of the Board of 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 versus payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate in hand at the conclusion of the transaction.

CONTINUING EDUCATION

The Fund acknowledges the importance of continuing education for trustees. To that end, the Trustees are encouraged to attend educational conferences in connection with their duties and responsibilities as Trustees.

REPORTING

The Funds investment consultant shall provide quarterly reports of the Fund's investment activities. These reports shall be public records and shall be submitted to the plan sponsor as required by law.

IMPLEMENTATION

All monies invested for the Plan by the investment managers after the adoption of this Investment Policy Statement shall conform to this statement.

Adopted this _____ day of _____, 20__

for: Bay Harbor Islands' Pension Fund