



STAFF REPORT

Date: September 26, 2017
To: Bryan H. Montgomery, City Manager
From: Deborah Sultan, Finance Director
Subject: Approval of the City's Pension Trust Investment Guidelines

Approved and Forwarded to the City Council:

Bryan Montgomery, City Manager

Background and Analysis

The City Council, at its June 27th meeting approved the participation in the pension stabilization trust administered by PARS and authorized the City Manager to negotiate and execute the documents to implement the program. All the documents have been signed and the trust is ready to be funded. The last step in the implementation process is the development of an investment policy or guidelines for the Pension Trust.

The Investment Guidelines provide a framework to construct an asset mix that meets the account's short and long term needs that is consistent with the investment objectives, liquidity considerations and risk tolerance of the Trust. The primary objective is to generate a reasonable level of growth. The risk tolerance is a balanced portfolio which has a moderate risk tolerance. A moderate risk tolerance accepts price fluctuations and takes into consideration both investment income and capital appreciation.

The investment guidelines include the strategic asset allocation, security guidelines, performance benchmarks, security limitations, investment limitations and the duties and responsibilities of the plan sponsor, plan trustee and the investment manager.

The investment guidelines, similar to the City's investment policy will be reviewed annually,

Fiscal Impact

There is no direct fiscal impact.

Recommendation

Staff recommends the Council adopt the attached Resolution approving the City's Pension Trust Investment Guidelines.

Attachments

Investment Guidelines
Resolution



Investment Guidelines Document

City of Oakley

Employee Benefits Fund Pension Plan

August 2017

Investment Guidelines Document

Scope and Purpose

The purpose of this Investment Guidelines Document is to:

- Facilitate the process of ongoing communication between the Plan Sponsor and its plan fiduciaries;
- Confirm the Plan's investment goals and objectives and management policies applicable to the investment portfolio identified below and obtained from the Plan Sponsor;
- Provide a framework to construct a well-diversified asset mix that can potentially be expected to meet the account's short- and long-term needs that is consistent with the account's investment objectives, liquidity considerations and risk tolerance;
- Identify any unique considerations that may restrict or limit the investment discretion of its designated investment managers;
- Help maintain a long-term perspective when market volatility is caused by short-term market movements.

Key Plan Sponsor Account Information as of August 2017

Plan Sponsor:	City of Oakley
Governance:	City Council for the City of Oakley
Plan Name ("Plan"):	City of Oakley Employee Benefit Fund Pension Plan
Trustee:	US Bank Contact: Susan Hughes, 949-224-7209 susan.hughes@usbank.com
Type of Account:	Pension Plan
ERISA Status:	Not subject to ERISA
Investment Manager:	US Bank, as discretionary trustee, has delegated investment management responsibilities to HighMark Capital Management, Inc. ("Investment Manager"), an SEC-registered investment adviser Contact: Andrew Brown, CFA, 415-705-7605 Andrew.brown@highmarkcapital.com

Investment Authority: Except as otherwise noted, the Trustee, US Bank, has delegated investment authority to HighMark Capital Management, an SEC-registered investment adviser. Investment Manager has full investment discretion over the managed assets in the account. Investment Manager is authorized to purchase, sell, exchange, invest, reinvest and manage the designated assets held in the account, all in accordance with account's investment objectives, without prior approval or subsequent approval of any other party(ies).

Investment Objectives and Constraints

The goal of the Plan's investment program is to provide a reasonable level of growth which, will result in sufficient assets to pay the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

- The Plan should seek to earn a return in excess of its policy benchmark over the life of the Plan.
- The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic perspective of the capital markets.

Investment Time Horizon: Medium term (5-7 years)

Anticipated Cash Flows: Assets in the Plan will seek to mitigate the impact of future rate increases from Calpers. Typically increases in rates come with a one-year advance warning, however this Plan may transfer assets to Calpers at any time.

Investment Objective: The primary objective is to generate a reasonable level of growth. The assets in this Plan will eventually be used to fund Pension Plan obligations for assets managed in the Calpers Trust.

Risk Tolerance: *Balanced*
The Plan's risk tolerance has been rated moderate, which demonstrates that the account can accept price fluctuations to pursue its investment objectives.

Strategic Asset Allocation: The asset allocation ranges for this objective are listed below:

<i>Strategic Asset Allocation Ranges</i>		
Cash	Fixed Income	Equity
0-20%	30%-50%	50%-70%
Policy: 5%	Policy: 35%	Policy: 60%

Market conditions may cause the account's asset allocation to vary from the stated range from time to time. The Investment Manager will rebalance the portfolio no less than quarterly and/or when the actual weighting differs substantially from the strategic range, if appropriate and consistent with your objectives.

Security Guidelines:

Equities

With the exception of limitations and constraints described above, Investment Manager may allocate assets of the equity portion of the account among various market capitalizations (large, mid, small) and investment styles (value, growth). Further, Investment Manager may allocate assets among domestic, international developed and emerging market equity securities.

Total Equities	50%-70%
<i>Equity Style</i>	<i>Range</i>
Domestic Large Cap Equity	20%-50%
Domestic Mid Cap Equity	0%-15%
Domestic Small Cap Equity	0%-20%
International Equity (incl. Emerging Markets)	0%-20%
Real Estate Investment Trust (REIT)	0%-10%

Fixed Income

In the fixed income portion of the account, Investment Manager may allocate assets among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio.

Total Fixed Income	30%-50%
<i>Fixed Income Style</i>	<i>Range</i>
Long-term bonds (maturities >7 years)	0%-20%
Intermediate-term bonds (maturities 3-7 years)	15%-50%
Short-Term bonds (maturities <3 years)	0%-15%
High Yield bonds	0%-8%

Performance Benchmarks:

The performance of the total Plan shall be measured over a three and five-year periods. These periods are considered sufficient to accommodate the market cycles experienced with investments. The performance shall be compared to the return of the total portfolio blended benchmark shown below.

Total Portfolio Blended Benchmark

- 32.00% S&P500 Index
- 6.00% Russell Mid Cap Index
- 9.00% Russell 2000 Index
- 4.00% MSCI Emerging Market Index
- 7.00% MSCI EAFE Index
- 2.00% Wilshire REIT Index
- 27.00% Bloomberg Barclay's Capital US Aggregate Index
- 6.75% ML 1-3 Year US Corp/Gov't Index
- 1.25% US High Yield Master II Index
- 5.00% Citi 1Mth T-Bill Index

Asset Class/Style Benchmarks

Over a market cycle, the long-term objective for each investment strategy is to add value to a market benchmark. The following are the benchmarks used to monitor each investment strategy:

Large Cap Equity	S&P 500 Index
Growth	S&P 500 Growth Index
Value	S&P 500 Value Index
Mid Cap Equity	Russell Mid Cap Index
Growth	Russell Mid Cap Growth Index
Value	Russell Mid Cap Value Index
Small Cap Equity	Russell 2000 Index
Growth	Russell 2000 Growth Index
Value	Russell 2000 Value Index
REITs	Wilshire REIT Index
International Equity	MSCI EAFE Index
Investment Grade Bonds	Bloomberg Barclay's Capital US Aggregate Index
High Yield	US High Yield Master II Index

Security Selection

Investment Manager may utilize a full range of investment vehicles when constructing the investment portfolio, including but not limited to individual securities, mutual funds, and exchange-traded funds. In addition, to the extent permissible, Investment Manager is authorized to invest in shares of mutual funds in which the Investment Manager serves as advisor or sub-adviser.

Investment Limitations:

The following investment transactions are prohibited:

- Direct investments in precious metals (precious metals mutual funds and exchange-traded funds are permissible).
- Venture Capital
- Short sales*
- Purchases of Letter Stock, Private Placements, or direct payments
- Leveraged Transactions*
- Commodities Transactions Puts, calls, straddles, or other option strategies*
- Purchases of real estate, with the exception of REITs
- Derivatives, with exception of ETFs*

**Permissible in diversified mutual funds and exchange-traded funds*

Duties and Responsibilities

Responsibilities of Plan Sponsor

The Plan Administrator and Staff of the City of Oakley is responsible for:

- Confirming the accuracy of this Investment Guidelines Document, in writing.
- Advising Trustee and Investment Manager of any change in the plan/account's financial situation, funding status, or cash flows, which could possibly necessitate a change to the account's overall risk tolerance, time horizon or liquidity requirements; and thus would dictate a change to the overall investment objective and goals for the account.
- Monitoring and supervising all service vendors and investment options, including investment managers.
- Avoiding prohibited transactions and conflicts of interest.

Responsibilities of Trustee

The plan Trustee is responsible for:

- Valuing the holdings.
- Collecting all income and dividends owed to the Plan.
- Settling all transactions (buy-sell orders).

Responsibilities of Investment Manager

The Investment Manager is responsible for:

- Assisting the Plan Administrator and Staff with the development and maintenance of this Investment Policy Guideline document annually.
- Meeting with Plan Administrator and Staff annually to review portfolio structure, holdings, and performance.
- Designing, recommending and implementing an appropriate asset allocation consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
- Researching and monitoring investment advisers and investment vehicles.
- Purchasing, selling, and reinvesting in securities held in the account.
- Monitoring the performance of all selected assets.
- Voting proxies, if applicable.
- Recommending changes to any of the above.

- Periodically reviewing the suitability of the investments, being available to meet with the committee at least once each year, and being available at such other times within reason at your request.
- Preparing and presenting appropriate reports.
- Informing the committee if changes occur in personnel that are responsible for portfolio management or research.

Acknowledgement and Acceptance

I/We being the Plan Sponsor with responsibility for the account(s) held on behalf of the Plan Sponsor specified below, designate Investment Manager as having the investment discretion and management responsibility indicated in relation to all assets of the Plan or specified Account. If such designation is set forth in the Plan/trust, I/We hereby confirm such designation as Investment Manager.

I have read the Investment Guidelines Document, and confirm the accuracy of it, including the terms and conditions under which the assets in this account are to be held, managed, and disposed of by Investment Manager. This Investment Guidelines Document supersedes all previous versions of an Investment Guidelines Document or investment objective instructions that may have been executed for this account.

_____ Date: _____
 Plan Sponsor: City of Oakley

_____ Date: _____
 Investment Manager: Andrew Brown, CFA, Senior Portfolio Manager, (415) 705-7605

RESOLUTION NO. __-

**A RESOLUTION OF THE OAKLEY CITY COUNCIL APPROVING THE
INVESTMENT POLICY FOR FISCAL YEAR 2017-18**

WHEREAS, the City Council has approved the participation in a pension stabilization trust administered by PARS; and

WHEREAS, investment guidelines are necessary to specify the investment objectives of the pension trust; and

WHEREAS, the guidelines specify the Trust's investment objectives to meet the needs of the account's short and long term needs; and

WHEREAS, the City Manager and Finance Director have worked with the Investment Manager to create the Investment Guidelines; and

WHEREAS, the Finance Director recommends the City Council approve the attached guidelines for FY 2017-18.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Oakley hereby approves the Pension Trust Investment Guidelines for FY 2017-18 attached hereto as Exhibit A.

PASSED AND ADOPTED by the City Council of the City of Oakley at a meeting held on the 26th of September, 2017 by the following vote:

AYES:
NOES:
ABSENT:
ABSTENTIONS:

APPROVED:

Sue Higgins, Mayor

ATTEST:

Libby Vreonis, City Clerk

Date