

CONTRACT/AGREEMENT No. 5084
CITY OF MARIETTA, GA.
RECORDS

Legistar 20220504

Investment Policy Statement

City of Marietta/BLW Defined Benefit Pension Plan

May 2022

TABLE OF CONTENTS

<u>Fund Description</u>	3
Purpose	3
Fund Leadership	3
Plan Sponsor Details	3
Federal Tax Identification Number	3
Fiscal Year End	3
Key Contacts for the Pension Board	3
Contact Information	4
Actuary	4
Custodian Bank	4
Investment Consultant	4
<u>Introduction</u>	5
Purpose	5
Justification	5
Policy Objectives	5
Policy Implementation	6
<u>Investment Philosophy</u>	6
<u>Investment Objectives/Goals</u>	7
<u>Time Horizon</u>	8
<u>Risk Tolerance</u>	8
<u>Asset Allocation</u>	8
Investment Policy Mix	8
Permitted Security Types	9
Categories of Approved Investment Securities	10
Rebalancing Procedures	10
Annual Review	10
<u>Selection/Retention Criteria for Investments</u>	10
Investment Manager Selection	10
Cash Equivalent Vehicles	11
Fixed Income and Equity Investment Manager Selection and Retention	11
<u>Frequency of Review</u>	13
Reports	13
<u>Duties and Responsibilities</u>	13
The Investment Manager(s)	13
The Consultant	14
City of Marietta/BLW Defined Benefit Plan	14

<u>Adoption</u>	<u>15</u>
<u>Appendix</u>	<u>16</u>

PENSION FUND DESCRIPTION

Purpose

This Investment Policy Statement has been adopted by the Board of the City of Marietta/BLW Defined Benefit Pension Plan (“Board”) to outline the prudent and acceptable investment philosophy of the City of Marietta/BLW Defined Benefit Pension Plan (“Plan”). It will also define the Plan’s investment management procedures and long-term goals. It is meant to provide a clear understanding between the Board, the Investment Committee, the Investment Consultant, and Investment Managers concerning the investment policies and objectives of the Plan’s investment fund (“Pension Fund”).

Pension Fund Leadership

The Board’s current membership is listed on the City’s website at <https://www.mariettaga.gov/704/Pension-Board>. The method of election to the Board, as well as other guidance about the Board’s powers and processes, is provided in Article X of the Pension Plan available at <https://www.mariettaga.gov/DocumentCenter/View/1429/Insurance-and-Retirement-Regulations-and-Consolidated-Retirement-Plan-Guide>.

Plan Sponsor Details

City of Marietta/BLW Defined Benefit Pension Plan

Federal Tax Identification Number

58-6000616

Fiscal Year End

June 30th

Key Contacts for the Pension Board

Board Chairman
Bobby Moss

City Manager
Bill Bruton

Treasurer
Sam Lady, Finance Director

Secretary
Davy Godfrey, Director of Human Resources & Risk Management

Contact Information

Marietta City Hall
205 Lawrence St. NE
Marietta, GA 30060
(770)794-5545
(770)794-5567

Actuary

Clark Weeks
Weeks Retirement Solutions (WRS)
Phone 404-252-7080
Fax 404-252-9586
cweeks@wrsbenefits.com

Custodian Bank

Truist
303 Peachtree Street, Suite 200
Atlanta, GA 30308
Kathy Kraiss
Kathy.Kraiss@Truist.com
407-237-5216

Investment Consultant

CBIZ IAS
5100 Poplar Avenue, 30th Floor
Memphis, TN 38137
(901) 761-8080
Ian Janecek, CAIA
Senior Consultant
Research Director, Private Equity
Ian.janecek@cbiz.com
Scott Arnwine
Senior Consultant
Scott.arnwine@cbiz.com

INTRODUCTION

Purpose

This Investment Policy Statement has been adopted by the Board of the Plan to outline the prudent and acceptable investment philosophy of the Board, and defines City's investment management procedures and long-term goals. It is meant to provide a clear understanding between the Board, the Investment Consultant and Investment Managers concerning the investment policies and objectives of the Pension Fund.

Justification

The principal reason for developing this long-term investment perspective and for putting it in writing is to protect the Pension Fund from *ad hoc* revisions of a sound long-term perspective. The written investment policy will help maintain a long-term perspective when short-term market movements may be distressing and the conditions seem unfavorable for the attainment of long-term objectives.

The development of this investment policy follows the basic approach underlying financial planning: assessment of the Pension Fund's financial condition, setting of investment objectives, development of a strategy to meet the objectives, implementation of the strategy, regular review of the results and adjustments of the strategy or the implementation as circumstances dictate.

Policy Objectives

The purpose of this Investment Policy Statement (IPS) is to establish a clear understanding regarding the Pension Fund's investment objectives and management practices between the Plan, its Investment Consultant and the Investment Managers engaged by the Pension Fund. This Investment Policy Statement will:

1. Establish reasonable expectations, objectives, and guidelines for the investment of the assets in the Pension Fund.
2. Create the framework for a well-diversified asset mix that can be expected to generate achievable long-term returns at a level of risk acceptable to the City of Marietta, including:
 - Describing an appropriate risk posture for the investment of the Pension Fund;
 - Specifying broad target asset allocation ranges and constraints;
 - Establishing investment guidelines regarding the selection of investment managers, permissible securities, and diversification of assets;
 - Specifying the criteria for evaluating the performance of the Pension Fund's Investment Managers.
3. Ensure this policy and its implementation conforms to OCGA 47-20-82, OCGA 47-20-83 and, to the extent applicable, OCGA 47-20-84¹.
4. Define the responsibilities of the Plan, the Consultant, and the Investment Managers.

¹ As of February 4, 2022, the Plan does not satisfy the requirements for a large retirement system. Should the Plan attain an unfunded liability amount of 30% or less and assets exceeding \$50,000,000 or assets exceeding \$200,000,000, the Plan would then be required to comply with OCGA 47-20-84.

5. Encourage effective communication between the Plan, its Consultant, and the Investment Managers.

The investment policies described in this IPS should be dynamic. They should reflect the Plan's philosophy and current status regarding the investment of the Pension Fund. These policies will be reviewed and revised periodically to ensure they adequately reflect any changes related to the Pension Fund and capital markets expectations.

Policy Implementation

The following steps were undertaken by the Board, in conjunction and with the assistance of the Consultant:

1. Assess the Pension Fund's financial situation—identify its goals and needs.
2. Determine its tolerance for risk and investment time horizon.
3. Set long term investment objectives.
4. Identify any restrictions on the Pension Fund and its assets, in keeping with all applicable State of Georgia statutes.
5. Determine the asset classes and mix (the "Asset Allocation") appropriate to maximize the likelihood of achieving the investment objectives at an acceptable level of risk, and in keeping with the limitations imposed by the statute.
6. Determine the investment methodology to be used with regard to investment manager selection and retention, rebalancing disciplines, portfolio reviews and reporting, etc.
7. Implement the decisions.

INVESTMENT PHILOSOPHY

The basic tenets under which this Pension Fund will be managed include the following:

1. A recognition of the investment restrictions specified by the State of Georgia in OCGA 47-20-82, OCGA 47-20-83 and OCGA 47-20-84. The Pension Fund shall be managed and overseen by the Board to fully comply with these regulations.
2. Modern Portfolio Theory, as recognized by the 1990 Nobel Prize, will be the primary influence governing the way the portfolio will be structured and how subsequent decisions will be made. The underlying concepts of Modern Portfolio Theory include:
 - Pensions are risk averse. The only acceptable risk is that which is adequately compensated by potential portfolio returns.
 - Traditional equity and bond markets are generally efficient. It is difficult to know ahead of time the next direction of the market as a whole or of any individual security.
 - The portfolio as a whole is more important than an individual security. The appropriate allocation of capital among asset classes: equities (stocks), fixed income (bonds) and cash will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long term

(preferably longer than ten years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface.

- For every risk level, there exists an optimal combination of asset classes that will maximize returns. A diverse set of asset classes will be selected to help minimize risk. The proportionality of the mix of asset classes will determine the long-term risk and return characteristics of the portfolio as a whole.
- The study of historical market behavior is used as a technique in modeling expected risk and returns. The selected time frames used in these models can greatly influence projected risks and returns.
- Portfolio risk can be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected. (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another.)
- Asset diversification spreads the portfolio's investments among different assets to reduce individual investment risk. Asset allocation spreads investments among different classes of assets to reduce market risk. Systematic risk (i.e., market risk, liquidity risk and inflation risk) is common to all securities and cannot be eliminated entirely.

3. Equities offer the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value).
4. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.
5. The underlying approach to the management of the Pension Fund shall be to optimize the risk/return relationship appropriate to the Pension Fund's needs and objectives. It will use a globally diverse portfolio of a variety of asset classes using institutional money management firms (investment managers) to invest in selected securities and strategies, and to periodically re-optimize (rebalance).

INVESTMENT OBJECTIVES/GOALS

The Board recognizes the importance of establishing investment performance objectives for the Pension Fund. The objectives establish a basis for judging the effectiveness of the Investment Policy Statement and the performance of the Investment Managers. The objectives are to be specific measurable standards that, when achieved, will ensure a well-funded retirement plan for the City of Marietta Employees. The specific investment return objectives for the Pension Fund shall be as follows:

1. Achieve or exceed the actuarial rate of return as determined by the Board using actuarial projections over a rolling five-year time period;
2. To exceed the rate of Inflation (as measured by the Consumer Price Index) by 3% over a rolling three-year time period;

3. To exceed the return of a balanced Market Index comprised of the Standard and Poor's 500 stock index and the Bloomberg US Aggregate Bond index in the proportions equal to allowable limits as outlined in the Georgia State Legal Codes OCGA 47-20-82, OCGA 47-20-83 and 47-20-84;
4. For each engaged Investment Manager, realize an investment return, net of all fees, that exceeds their assigned benchmark(s) and the median of their peer group over a rolling five-year time horizon.

TIME HORIZON

This Investment Policy Statement assumes a long-term investment time horizon of ten years. Capital values do fluctuate over shorter periods and the Board recognizes that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of at least three to five years can be minimized with the asset diversification mix employed under this Investment Policy Statement.

RISK TOLERANCE

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (e.g., volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Pension Fund is the determination of an appropriate risk tolerance. While the overall level of risk is governed in total by statutory constraints, within those constraints the Plan's risk tolerance is dictated by:

- Financial ability to accept risk within the investment program, and
- Willingness to accept return volatility.

Taking these two factors into account, the Board rates the Plan's risk tolerance as moderate between bond and stock volatility, which historically falls between a 5% to 15% standard deviation, with an 8% to 10% target. The Board recognizes the difficulty of achieving the Pension Fund's investment and financial objectives over the short run in light of the uncertainties of markets, and it accepts the volatility that will be experienced in order to achieve the Pension Fund's long-term objectives. Accordingly, the Board will tolerate infrequent, very moderate negative returns through a market cycle according to each investment style. However, the overall effect of this Policy should be to minimize total volatility while maximizing total portfolio returns through diversification.

ASSET ALLOCATION

Investment Policy Mix

OCGA 47-20-82, 47-20-83, and 47-20-84 provides guidance for investment policy with respect to asset allocation. The eligibility of an investment must be determined as of the date it is made or acquired. The

following limits on the policy mix (target allocations are shown in the attached appendix) are established to comply with that guidance on a long-term basis.

Asset Class	Minimum	Maximum	Target
1. Equity	20.0%	55.0%	
A. Large Cap	10.0%	55.0%	
B. Small-Mid Cap	0.0%	30.0%	
C. International	0.0%	10.0%	
D. Public Real Estate (REITS)	0.0%	15.0%	
2. Fixed	15.0%	80.0%	
A. Investment Grade	15.0%	80.0%	
B. International	0.0%	7.5%	
3. Alternatives	0.0%	20.0%	
A. Convertible Bonds	0.0%	20.0%	

Permitted Security Types

1. Stocks, Bonds, Marketable Fixed Income Securities, Money Market Funds.
2. Separately Managed Accounts, Unitized Trusts-Commingled Trusts, Mutual Funds, Closed-End Funds.
3. Individual Stocks, as long as they are traded on a major U.S. or International exchange.
4. Individual Bonds, as long as they traded on a major U.S. or International exchange.

Categories of Approved Investment Securities

All Investment Managers shall manage their assigned portfolios to comply with Georgia State Legal Codes OCGA 47-20-83 and, to the extent applicable, 47-20-84.²

1. Marketable securities issued or guaranteed by the governments of the U.S. or Canada.
2. Marketable securities issued by U.S. and non-U.S. based companies, subject to the issuer's market capitalization and financial strength as specified in OCGA 47-20-83(a) (1), (11) and (12).
3. Mortgage-Backed and Asset-Backed fixed income securities subject to certain credit rating and purpose restrictions as detailed in OCGA 47-20-83(a) (9), (13) and (15).
4. Non-U.S. government and corporate issued equity and debt securities are allowed subject to the restrictions contained in OCGA 47-20-83(a) (1), (7) and (10).

Rebalancing Procedures

At least quarterly, the Plan Board, in conjunction with its Consultant, will review asset levels for each of the asset classes, Investment Managers and strategies, and determine if assets should or must be moved in order to remain within the prescribed Investment Policy limits or to achieve improved performance in the portfolio. On occasions when such moves are warranted, the Investment Consultant will prepare recommendations and rationale for presentation to the Board for their approval and subsequent directions to the Plan staff for execution.

Annual Review

At least once each year, the Plan, in conjunction with the Investment Consultant, will undertake to review the above asset classes, targets and ranges with respect to expected future performance, taking into consideration capital market expectations and economic forecasts. If warranted, the Consultant will prepare recommendations and rationale for revisions to this Investment Policy Statement to reflect a new Policy Mix for approval by the Board, and subsequent directions to the Plan staff for execution.

SELECTION/RETENTION CRITERIA FOR INVESTMENTS

Investment Manager Selection

Assets of the Pension Fund will be managed by Registered Investment Advisers (RIAs) selected by the Board in conjunction with recommendations of the Investment Consultant. Investment Managers will serve as fiduciaries to the Pension Fund and be responsible for prudent and careful selection of securities within their investment mandates.

Investment Managers shall be chosen using the following general criteria:

² As of February 4, 2022, the Plan does not satisfy the requirements for a large retirement system. Should the Plan attain an unfunded liability amount of 30% or less and assets in excess of \$50,000,000 or assets exceeding \$200,000,000, the Plan would then be required to comply with OCGA 47-20-84.

1. Past performance considered relative to other investment managers having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance.
2. Investment return history is compliant with Global Investment Performance Standards (GIPS), or other appropriate professional standards, and audited by a qualified audit firm.
3. Costs are comparable to other investment managers with comparable objectives and investment styles, and product structures.
4. Service commitment by the Investment Manager to serve the Pension Fund through effective and honest communications.
5. Size of the proposed investment mandate, relative to the Investment Manager's existing size and capacity.
6. Length of time the Investment Manager has been in existence and length of time the strategy has been under the direction of the current portfolio manager(s), and whether or not there have been material changes in the Investment Manager's organization and personnel.
7. Organizational leadership and commitment of the firm to the portfolio management team.
8. Financial strength of the firm and its ownership stability.
9. Historical return volatility and downside risk of each proposed investment.
10. Complementary perspective to other asset strategies in the Pension Fund.
11. Likelihood of future investment success, compared to other investment managers in consideration.

While the above criteria are definitive in nature, it must be emphasized that these criteria constitute a guideline, and, in the course of evaluating an Investment Manager, other criteria may come to light that are of such a compelling nature as to outweigh certain elements of the above for purposes of selection or de-selection.

Cash Equivalent Vehicles

The Plan's objective is to maintain a minimal cash balance and, when possible, to be fully invested. All cash equivalent investments shall be pooled investment vehicles, such as money market funds, where the fund's share price is intended to remain constant and the fund's yield is comparable with the current risk-free rate of return.

Cash Equivalent vehicles shall comply with the OCGA 47-20-83 and 47-20-84.

Fixed Income and Equity Investment Manager Selection and Retention

All Investment Managers shall invest their assigned assets of the Pension Fund in full compliance with the Georgia State Codes 47-20-83 and 47-20-84.

1. Any selected Investment Manager shall invest in vehicles such as: a commingled account, a separate account, or a mutual fund.

2. The investment management fees charged by the Investment Manager should be less than the average of their peers in the same investment strategy and structure.
3. The Investment Manager should have an investment track record of no less than three years in the strategy under consideration.
4. The Investment Manager's average annualized return, net of portfolio expenses, over a three-year time period or more, should be in the top half (top third is the target) of the returns generated by other comparable investment managers as compiled by leading national databases.
5. The Investment Manager will incur investment downside risk no more than 20% above that incurred by comparable investment managers with the same investment objective, as measured by the product composite's "downside standard deviation" over a two-year period.

Once selected, should any engaged Investment Manager's performance fall below the 75th percentile of comparable managers in a large peer universe for a period of two years, the selected Investment Manager will be placed on probation for the subsequent twelve months. If, over the subsequent year, the Investment Manager's average return for the applicable three-year period remains below the 75th percentile, the Plan, in conjunction with the Consultant, will make a determination as to whether the Investment Manager's mandate continues to be a prudent and appropriate investment.

Otherwise, the Pension Fund's Trustees may place any Investment Manager on probation or terminate any Investment Manager for any reason they determine to be in the best interest of the Pension Fund.

The Plan recognizes that all investments go through cycles and, therefore, there will be periods of time in which the investment objectives are not met or when specific Investment Managers fail to meet their expected performance targets. Recognizing that no Investment Manager is perfect all the time and that good years help to make up for bad ones, the Plan acknowledges the principle that Investment Managers must be given an opportunity to make up for poor periods. Unless there are extenuating circumstances, patience will often prove appropriate when performance has been disappointing.

The Plan staff and the Investment Consultant shall evaluate the organizational health of each Investment Manager at least annually. The evaluations shall consider the organizational stability and leadership depth of the firm, its investment processes, and the operations. Investment Managers will be obligated to report organizational changes within their leadership, ownership and/or in their investment process promptly to the Investment Consultant. The Plan shall consider the stability and discipline within each Investment Manager and make investment manager changes when they determine such changes may be in the best interest of the Pension Fund. As a matter of course, the Consultant and the Investment Managers shall keep the Plan apprised of any material changes in their outlook, recommended investment strategy and tactics.

Any material event that affects the ownership of the Investment Consultant or the Investment Manager or the management of the Pension Fund's assets must be reported immediately to the Plan.

FREQUENCY OF REVIEW

Reports

1. The Consultant shall arrange for the Investment Managers to provide the Plan with a report each month that shows the market values and returns for the assets under their management.
2. The Consultant shall provide no less frequently than on a monthly basis and within 15 business days within the end of each such month a performance report that meets the requirements of the Plan.
3. Each quarter, the Consultant and each Investment Manager shall prepare comprehensive performance reports that accurately report the investment performance of the Pension Fund and each underlying portfolio. The quarterly reports will also include a review of the factors that contributed to the reported performance, and a review of economic and market behavior and conditions.

DUTIES AND RESPONSIBILITIES

The Investment Manager(s)

The Investment Managers are expected to manage their assigned asset style mandates in a manner consistent with this Investment Policy Statement, with their specific policy found in the appendix, and in accordance with the Georgia State Codes (OCGA 47-20-82, 47-20-83 and 47-20-84) and Federal law, including the Uniform Prudent Investor Act.

The Investment Managers shall:

1. Have full discretion with respect to market timing and security selection.
2. Employ internal controls to assure that the investments will be managed in compliance with all controlling statutes and regulations.
3. Have stated guidelines to establish minimum expectations.
4. Within thirty days of the end of the calendar quarter, provide to the Plan and its Consultant a statement indicating:
 - a. The portfolio composition at cost and market value by sector.
 - b. All individually named securities and their respective market values.
 - c. All cash transactions, including any transfers of Pension Fund assets.
 - d. Adherence to the Investment Policy.
 - e. A list of any securities not in compliance with the list of security restrictions.
 - f. A copy of their proxy voting record for the previous quarter.
5. Each year, provide a copy of their proxy voting policies and procedures.
6. Each year, provide to the Board and the Investment Consultant a copy of Section II of the Investment Manager's Form ADV (registration form filed with the SEC each year).

7. Be expected to produce on request documentation in support of buy, sell and hold decisions.

The Consultant

The Consultant is expected to consult on the Pension Fund in a manner consistent with this Investment Policy Statement and in accordance with the Georgia State Codes, (OCGA 47-20-82, OCGA 47-20-83 and 47-20-84) and Federal law, including the Uniform Prudent Investor Act. The Consultant is a Registered Investment Adviser and shall act as the Investment Consultant to the Plan until the Plan decides otherwise.

The Consultant shall be responsible for:

1. Designing, recommending, and implementing an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this statement.
2. Recommending an appropriate custodian to safeguard the Pension Fund's assets.
3. Recommending Investment Managers within each asset category.
4. Providing each Investment Manager with a current copy of the IPS.
5. Write manager specific policies as necessary.
6. Monitoring the performance of all selected Investment Managers.
7. Recommending changes to any of the above.
8. Periodically reviewing the suitability of the Fund's investments for the Plan.
9. Preparing and presenting appropriate performance reports.

The Consultant will not take title to any assets, nor shall the Consultant exercise discretionary control over any of the Pension Fund's assets. The Consultant shall be responsible only for making recommendations to the Plan and to carry out its responsibilities as directed by the Plan.

City of Marietta/BLW Defined Benefit Pension Plan

The Plan shall be responsible for:

1. The oversight of the Pension Fund.
2. Defining the investment objectives and policies of the Pension Fund.
3. Directing the Consultant to make changes in the Investment Policy, and to oversee and to approve or disapprove the Consultant's recommendations with regard to policy, guidelines, objectives, Investment Manager searches, monitoring and performance oversight on a timely basis.
4. The Plan shall provide the Consultant with all relevant information on the Plan's financial conditions and risk tolerances, and shall notify the Consultant promptly of any changes to this information.

ADOPTION

Adopted by the below signed:

City of Marietta/BLW Defined Benefit Pension Plan

By: Bobby Moss, Chairman, Pension Board

By: R. Steve Tumlin, Mayor

By: Stephanie Guy, City Clerk

Date: 5.17.22

Approved as to Form:

By: Doug Haynie, City Attorney

Doug Haynie

Date:

5-17-22

APPENDIX

Allocation target ranges are provided to accommodate fluctuations in market value while providing guidance to the Plan and its Consultant regarding the appropriate mix of assets relative to portfolio performance, current capital market expectations and economic conditions. The following policy mix is established to comply with the guidance of OCGA 47-20-82, 47-20-83, and 47-20-84 on a long-term basis while providing the greatest potential for the portfolio to achieve its investment objectives.

Asset Class	Minimum	Maximum	Target
1. Equity	20.0%	55.0%	50.0%
A. Large Cap	10.0%	55.0%	
B. Small-Mid Cap	0.0%	30.0%	
C. International	0.0%	10.0%	
D. Public Real Estate (REITS)	0.0%	15.0%	
2. Fixed	15.0%	80.0%	32.5%
A. Investment Grade	15.0%	80.0%	
B. International	0.0%	7.5%	
3. Alternatives	0.0%	20.0%	17.5%
A. Convertible Bonds	0.0%	20.0%	

Date Recommended: *5-17-22*

City of Marietta/BLW Defined Benefit Pension Plan

By: Bobby Moss, Chairman, Pension Board

