

STATE OF WISCONSIN : CITY OF FRANKLIN : MILWAUKEE COUNTY

RESOLUTION NO. 2018-7347

A RESOLUTION TO AMENDING RESOLUTION 2011-6699 AN INVESTMENT POLICY STATEMENT FOR THE CITY OF FRANKLIN DEFINED BENEFIT RETIREMENT PLAN

WHEREAS, the City of Franklin established guidelines for Principal in April of 2008 for retirement plan investments; and

WHEREAS, it is desirable, a best practice and requested by the Principal Financial Advisors investment manager to have established investment policy for these funds; and

WHEREAS, the Common Council has adopted the Investment Policy Statement dated March 1, 2011 presented by the Director of Finance & Treasurer and reviewed by the Finance Committee; and

WHEREAS, the Common Council desires to amend the policy to reflect the Director of Administration and Director of Finance & Treasurer as the City's Representatives to the plan.

NOW, THEREFORE, BE IT RESOLVED, by the Mayor and Common Council of the City of Franklin that the City of Franklin Defined Benefit Plan Investment Policy Statement dated March 1, 2011 is amended as attached.

Introduced at a regular meeting of the Common Council of the City of Franklin this 19th day of February, 2018.

Passed and adopted at a regular meeting of the Common Council of the City of Franklin this 19th day of February, 2018.

APPROVED:


Stephen R. Olson, Mayor

ATTEST:


Sandra L. Wesolowski, City Clerk

AYES 6 NOES 0 ABSENT 0

**INVESTMENT POLICY FOR THE
CITY OF FRANKLIN
DEFINED BENEFIT RETIREMENT PLAN**
(hereinafter referred to as “the Plan”)

I. PURPOSE OF THIS POLICY

The City of Franklin, hereby establishes this investment Policy (hereafter referred to as the “Policy”) for administering the Plan’s investment program. The Policy sets forth the investment objectives and other policies that will be applied within the investment program to insure that the Plan is managed in a manner consistent with the Plan document, prudent-person rules and applicable law. By establishing and communicating clear investment objectives and policies, the City of Franklin can enhance the effectiveness of the Plan’s investment program.

The City of Franklin reserves the right to amend this Policy at any time as deemed prudent or necessary at its sole discretion. Should any amendment to this Policy be required due to changes in the Plan document, changes in the actuarial report or a change in applicable law, the City of Franklin shall have due time to review such changes and prepare and implement an appropriate policy amendment. Because of the dynamic nature of the economic environment, developments in financial theories, and advances in technology, this Policy will be examined by the City of Franklin from time to time on a formal or informal basis and may, as a result of such examination, be revised by the City of Franklin.

II. INVESTMENT OBJECTIVES

The overall objective of this Policy is to provide guidance for the investment of contributions and other Plan assets, to help maintain adequate funding for Plan liabilities. The primary investment objectives of the Plan are as follows:

- **Return** – Obtain a reasonable long-term return consistent with the level of risk assumed. Specific return objectives may include fund performance that exceeds the rate of inflation, the assumed actuarial discount rate, and/or the total fund policy return which is typically defined as the return of a passively managed benchmark comprised of the target portfolio weights to each asset class.
- **Cost** – Seek to control the cost of funding the Plan within prudent levels of risk through the investment of Plan assets.
- **Diversification** – Provide diversification of assets in an effort to avoid the risk of large losses and maximize the investment return to the Plan consistent with market and economic risk.
- **Safety** – Preservation of principal by avoiding overly risky alternatives that may provide additional investment return but subject the portfolio to above market risk of large losses.

III. Asset Allocation Policy

The City of Franklin shall adopt and maintain an asset allocation policy that is based on several factors including:

- The projected liability stream of benefits and the costs of funding that liability stream;
- The relationship between the current and projected assets of the Plan and the projected actuarial liability stream;
- The historical performance of capital markets adjusted for the perception of future short and long-term capital market performance;
- The perception of future economic conditions, including inflation and interest rate assumptions.

The asset allocation policy identifies equity and fixed income target allocations to eligible asset classes. The Employer's representative using recommendations of the investment manager will set the target allocations as to size, style, concentration, how managed and, where appropriate, suitable ranges within which each asset class can fluctuate as a percent of the total fund. Each asset class is to remain suitably invested in permitted securities or cash equivalents as the market and the asset allocation dictates. The asset classes may be rebalanced from time to time to take advantage of tactical market conditions across major asset classes or investment styles, or to align the current asset mix with strategic targets.

The asset allocation will be 50% to 75% of total assets to be invested in domestic and international equity funds and 50% to 25% of total assets invested in fixed income securities.

IV. Investment Classes

While the Plan is not governed by the Employee Retirement Income Security Act of 1974 (ERISA), the City of Franklin may consider all asset classes that would be permitted under ERISA's "prudent person" standard (as interpreted by the various courts) as acceptable investment options, provided such investments are permitted by the Plan document and other applicable laws including but not limited to Section 881.01 of the Wisconsin Statutes. To the extent that the City of Franklin deems it appropriate and consistent with the Plan document and this Policy, the City of Franklin may select one or more customized investment portfolios and retain an investment manager to manage the assets of each such portfolio.

The following asset classes are permitted for Plan investment options:

Equities – investments through Domestic stocks, International Stocks, Real Estate or Commodities as described below. The preferred ownership would be through mutual funds though investments in individual equities would be considered based upon the strategy of the investment manager and the benefit to the Plan.

1. **Domestic Stocks** - portfolios composed primarily of the common stocks of U.S. domiciled corporations. Investment options may include different sizes (large-cap, mid-cap and small-cap) and styles (value, growth and blend). Such options may be broadly diversified or concentrated (sector funds), and may be either actively or passively managed (indexed).

Strategic Purpose: Long-term growth

The balance equity portfolio not allocated to other categories

2. **International Stocks** – portfolios composed primarily of the common stocks of corporations domiciled outside of the U.S. Investment options may include different regional and emerging markets funds, a variety of sizes (large-cap, mid-cap and small-cap) and styles (value, growth and blend), be broadly diversified or concentrated (sector funds), and be either actively or passively managed (indexed).

Strategic Purpose: Long-term growth, diversification

Limit 25% of equity portfolio

3. **Real Estate** – portfolio consists primarily of owned real estate investment options including real estate investment Plans of all types and other commingled real estate equity investment options.

Strategic Purpose: Income, diversification, inflation hedge

Limit 10% of equity portfolio

4. **Commodities** – portfolio consists primarily of owned commodity investment options through commodity funds and other commingled commodity equity investment options.

Strategic Purpose: Income, diversification, inflation hedge

Limit 5% of equity portfolio

5. **High Yield Fixed Income Securities** – portfolio consists primarily of non investment grade debt securities issued by the U.S. government, U.S. government sponsored/related agencies, and U.S. domiciled corporations or if international bonds, debt securities issued by foreign governments, foreign government sponsored/related agencies, and foreign corporations.

Strategic Purpose: Income, diversification, inflation hedge

Limit 5% of equity portfolio

Fixed Income – portfolios primarily composed of investment grade debt securities issued by the U.S. government, U.S. government sponsored/related agencies, and U.S. domiciled corporations or if international bonds, debt securities issued by foreign governments, foreign government sponsored/related agencies, and foreign corporations. Investment options may include quality ranges (high or medium), durations (short or intermediate), be broadly diversified or concentrated (sector funds), and be either actively or passively managed (indexed). Cash Equivalents will be considered as part of the fixed income investments.

Strategic Purpose: Income, diversification, deflation hedge (international only), hedge for current liabilities.

V. Investment performance goals

It shall be the goal of the Plan to earn an investment return equal to the long term investment returns of the market. Over numerous long term periods the equity markets have experienced ten percent investment returns and the fixed income markets have experienced five percent investment returns. Under the above investment returns it is reasonable to project an eight percent investment return on the Plan portfolio under 65% equity allocation and 35% fixed income allocation over a long period of time.

VI. Investment measurement criteria

The investment manager shall be measured on equity investments against the investment return of the US equity market (S&P 500 index). The investment manager may also benchmark against other investment return indexes for specific portions of the equity portfolio as appropriate and agreed to by the Employer representative.

The investment manager shall be measured on fixed income investments against the investment return of the (Barclay Capital Aggregate Bond Index).

The Employer representative of the City of Franklin shall be its Director of Finance & Treasurer and Director of Administration

This investment policy shall be reviewed each year during the first quarter.

VII. Investment restrictions

The Plan and therefore the investment manager is subject to the restrictions of Wisconsin Statutes section 881.01. In addition Fund should be structured to minimize risk levels within the approved asset allocation the likelihood of sharp declines in principal values. The possibility of moderate declines in total value is a risk the Plan accepts as necessary to achieve the desired long-term results.

The Plan is not to invest directly in private placements, letter stock, any investment without an ascertainable market value, venture capital, futures, and uncovered options. It may not directly engage in short sales, margin transactions or other specialized investment activities. However, to the extent that mutual funds or separate account managers utilize such investments and strategies, then such activity will be acceptable within the general confines of this policy provided that they are not a core attribute of such fund or manager.

VIII. Monitoring of Investment Managers and Investment Options

The objective of the investment manager monitoring process is to identify on a timely basis any adverse changes to the investment manager's organization or investment process by periodically evaluating a number of qualitative and quantitative factors. In addition, once adverse changes are identified, the monitoring process shall also dictate the timing and manner of response.

Using information provided by the investment manager the City of Franklin through its Employer representatives shall evaluate the investment managers/options at least annually, in addition to using any other factors the City of Franklin believes are appropriate to the inquiry. These factors are intended to insure that decisions to retain investment managers/options are made with a prudent degree of care and that excessive risk is avoided.

If results from the monitoring process indicate substandard investment performance or a potentially adverse change in the investment manager's organization or investment process, the City of Franklin may choose one of several courses of action including but not limited to assigning the investment manager/option a temporary probationary status, undertaking an in-depth review, reducing the size of the investment manager's portfolio by assigning a portion to a new investment manager, or terminating the investment manager/option.

Being placed on a probationary status is meant to convey the City of Franklin's increased level of concern about a particular issue or event, which if left unresolved, could endanger the future relationship with the investment managers/options. An in-depth review may be undertaken as a result of the investment manager/option failing to rectify the issues that led to their placement on a probationary status, or in response to a major adverse change in the investment manager's organization or investment process to the extent that the City of Franklin seriously questions the firm's ability to manage the portfolio going forward. The purpose of the in-depth review is to determine whether terminating the manager/option is an appropriate course of action.

IX. Elimination of Investment Managers and Investment Options

The City of Franklin may eliminate a Plan investment manager/option any time the City of Franklin deems it in the best interests of the Plan. The City of Franklin may also eliminate any existing investment manager/option for the following reasons:

- Changing investment manager or investment option practices such that they are no longer materially consistent with this Policy, or this Policy changes so that it is no longer materially consistent with the practices of an investment manager or investment option; and,
- Final recommendation of an in-depth review.

The City of Franklin may also add, eliminate, or replace any Plan investment option as the needs of the Plan change, or for any other prudent reason.

X. Selection of Investment Managers and Investment Options

The City of Franklin shall select investment managers and, where appropriate, investment options based on the evaluation of qualitative and quantitative factors. The manager selection process will focus on the following five key aspects of an investment management firm and investment option:

1. **Organization** – evaluate the key elements of an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff.
2. **Investment Philosophy and Process** – evaluate the key elements of a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls.
3. **Resources** – evaluate the state of current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems.
4. **Performance** – evaluate investment managers’ historical returns and risks relative to passive indexes, and peer groups over longer time periods, like three and five years.
5. **Management Fees** – evaluate the proposed fee structure relative to the industry and other competing candidates to ensure fees are appropriate

These factors are chosen to insure that investment manager/option selections are made with a prudent degree of care, and that excessive risk is avoided. Notwithstanding the above, the City of Franklin may also include other factors that they believe are appropriate to a specific manager/option selection exercise.

Policy Established
Policy reviewed

March 1, 2011
February 19, 2018

Resolution 2011- 6699
Resolution 2018-7347

3/1/2011
1/8/2018