

STATE OF WISCONSIN : CITY OF FRANKLIN : MILWAUKEE COUNTY

RESOLUTION NO. 2019-7480

A RESOLUTION TO AMEND THE INVESTMENT POLICY STATEMENT FOR THE CITY
OF FRANKLIN POST EMPLOYMENT BENEFITS TRUST

WHEREAS, the City of Franklin issued an investment policy statement for OPEB trust investments last modified on May 6th, 2014; and

WHEREAS, it is desirable to further modify parts of that investment policy; and

WHEREAS, the Common Council has reviewed the Investment Policy Statement dated April 1, 2019 presented by the Director of Finance & Treasurer and reviewed by the Finance Committee.

NOW, THEREFORE, BE IT RESOLVED, by the Mayor and Common Council of the City of Franklin that the Post Employment Benefits Trust Investment Policy Statement dated April 1, 2014 is approved.

Introduced at a regular meeting of the Common Council of the City of Franklin this 1st day of April, 2019.

Passed and adopted at a regular meeting of the Common Council of the City of Franklin this 1st day of April, 2019.

APPROVED:



Stephen R. Olson, Mayor

ATTEST:



Sandra L. Wesolowski, City Clerk

AYES 6 NOES 0 ABSENT 0

INVESTMENT POLICY FOR THE CITY OF FRANKLIN POST EMPLOYMENT BENEFITS TRUST

(hereinafter referred to as "the Trust")

I. PURPOSE OF THIS POLICY

The City of Franklin, hereby establishes this investment Policy (hereafter referred to as the "Policy") for administering the Trust'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 Trust is managed in a manner consistent with the Trust 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 Trust'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 Trust document or a change in applicable law, the City of Franklin shall have due time to review such changes and prepare and implement an appropriate 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 Trust assets, to help maintain adequate funding for Trust liabilities. The primary investment objectives of the Trust 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 annual portfolio weights for each asset class.
- **Cost** – Seek to control the cost of funding the Trust within prudent levels of risk through the investment of Trust assets.
- **Diversification** – Provide diversification of assets in an effort to avoid the risk of large losses and maximize the investment return to the Trust 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 Trust 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.

IV. Investment Classes

While the Trust 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 Trust 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 Trust 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 Trust investment options:

Investment Portfolio #1

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

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 portion of the equity portfolio not allocated to other categories

2. **Small Cap 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
100% of this equity portfolio to be invested in domestic stocks
Limit – Not to exceed 33% of the equity component of the portfolio.
3. **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 30%_of equity portfolio
4. **Real Estate** – portfolio consists primarily of owned real estate investment options including real estate investment trusts of all types and other commingled real estate equity investment options.
Strategic Purpose: Income, diversification, inflation hedge
Limit 5% of equity portfolio
5. **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
6. **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 trust to earn an investment return equal to the long term investment returns of the market as defined in Section II

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 trust portfolio under 65% equity allocation and 35% fixed income allocation over a long period of time.

VI. Investment measurement criteria

When no investment manager is employed by the Employer representative, then passive index investments will be used. The securities chosen shall have investment expenses in the bottom quartile of the investment style and produce returns not less than 90% of the securities' benchmark in the last three year period as stated in its prospectus.

The investment manager shall be measured on equity investments against 50% of the investment return of the US equity market as measured by the S&P 500 index and 50% of the investment return of the world equity market as measured by the MSCI EAFE 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 Merrill Lynch 1 to 5 year government index.

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

This investment policy shall be reviewed periodically, but not less than every three years. **VII. Investment restrictions**

The trust and therefore the investment manager is subject to the restrictions of Wisconsin Statutes section 881.01. In addition the Fund should be structured to minimize risk levels within the approved asset allocation to minimize the likelihood of

sharp declines in principal values. The possibility of moderate declines in total value is a risk the Trust accepts as necessary to achieve the desired long-term results.

The Trust 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 representative 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 Trust investment manager/option any time the City of Franklin deems it in the best interests of the Trust. 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 Trust investment option as the needs of the Trust change, or for any other prudent reason.

The City of Franklin may chose to use passive index funds in place of an Investment Manager.

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 Revised	April 1, 2019	Resolution 2019-7480
Policy Reviewed	April 21, 2016	No changes made
Policy Revised	May 6, 2014	Resolution 2014-6984

Policy Revised
Policy Revised
Policy Revised
Policy Revised
Policy Established

June 18, 2013
March 6, 2012
March 1, 2011
February 2, 2010
November 18, 2008

Resolution 2013-6891
Resolution 2012-6790
Resolution 2012-6698
Resolution 2010-6624
Council Motion