

CITY OF HALLANDALE BEACH GENERAL EMPLOYEES PENSION BOARD

INVESTMENT POLICY STATEMENT

(City of Hallandale Beach Defined Benefit General Employees Retirement Plan,
hereinafter referred to as "the Plan")

I. PURPOSE OF THIS STATEMENT

The Plan's Named Fiduciary, the City of Hallandale Beach City Commission (City Commission), on behalf of the Plan Sponsor, the City of Hallandale Beach, hereby establishes the following policy for administering the Plan's investment program. The Investment Policy Statement sets forth the investment objectives and guidelines that will be applied within the investment program to insure that the Plan is managed in a manner consistent with the Plan document and applicable statutory requirements. By establishing and communicating clear investment guidelines and objectives, the Plan Sponsor can enhance the effectiveness of the Plan's investment program and thereby contribute to the overall goal of retaining and recruiting employees by delivering an attractive, low-cost retirement program.

The City Commission reserves the right to amend this Statement at any time as deemed prudent or necessary. Should any amendment to this Statement be required due to changes in the Plan document or a change in applicable law, the City Commission 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 Statement will be examined by the City Commission from time to time on a formal or informal basis and may, as a result of such examination, be revised by the City Commission.

While the Employee Retirement Income Security Act of 1974 (ERISA) does not apply to a governmental fund, the Board and all of its agents, including the investment managers, shall comply with the fiduciary standards, subject to Florida Statute, Section 112.661 requirements, as set forth in the Employee Retirement Income Security Act of 1974 at 29 U.S.C. S1104 (a) (1) (A) - (C), set forth below:

Section 1104- Fiduciary duties

(a) Prudent Man Standard of Care

- (1) Subject to sections 1103 (c) and (d), 1342 and 1344 of the title, a fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and –
 - (A) for the exclusive purpose of
 - (i) providing benefits to participants and their beneficiaries; and
 - (II) defraying reasonable expenses of administering the plan;
 - (B) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
 - (C) by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

II. AUTHORIZED INVESTMENTS & BENCHMARKS

The Board's investments are subject to the limitations set forth in Florida Statute Sections 215.47 (1), (2), (3), (4), (5), (6), (7), (8), (10), and (16), (attached), except as otherwise permitted by local ordinance.

The authorized investments are set forth on page 2 of this policy and the performance benchmarks are set forth on page 3.

III. INVESTMENT GUIDELINES

A. Authorized Investments:

1. Time, savings and money market deposit accounts of a national bank, or a savings and loan association Insured by the Federal Deposit Insurance Corporations.
2. Obligations issued by the U.S. Government, or an agency or instrumentality of the U.S. Government, including mortgage-related securities. The U.S. Government securities which may be purchased include direct obligations Issued by the United States Treasury, such as Treasury bills, certificates of indebtedness, notes and bonds as well as instruments issued or guaranteed by agencies or Instrumentalities of the United States government, including mortgage-related securities. Mortgage-related securities or asset-backed securities not issued by the U.S. Government or an agency or instrumentality thereof may also be purchased.
3. Equities: equities defined as common stocks and issues convertible to equities, provided:
 - a. Each holding shall be listed on a major U.S. exchange.
 - b. Not more than 5% of the Fund's assets shall be invested in the common stock or capital stock of any one issuing company except if held as part of the investment strategy of a co-mingled investment portfolio, such as a mutual fund or insurance company separate account. Nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding stock of the company.
4. Fixed income investments defined as preferred issues and fixed income securities provided:
 - a. All issues rank In Standard & Poor's, AAA, AA, A, BBB or Moody's Aaa, Aa, A and Baa except for those below investment-grade bonds held in a co-mingled investment portfolio, such as a mutual fund or insurance company separate account.
5. Money market funds, defined as fixed Income securities having a maturity of less than one year; provided:
 - a. All issues shall meet or exceed Standard & Poor's A1, or Moody's P1 credit rating.
6. Bonds issued by the State of Israel.
7. Master Limited Partnerships, traded on a recognized exchange not to exceed 5% of the portfolio
8. Real Assets – co-mingled investment portfolios, such as a mutual fund or li insurance company separate account, consisting of real assets (including owned real estate, real estate investment trusts and/or other commingled real estate

equity investment options, natural resources stock, master limited partnerships, inflation-protected bonds and commodities).

9. Prohibited Transactions:

1. Margin purchases, lending or borrowing money outside of securities lending program as part of an overall strategy of a co-mingled investment option, such as a mutual fund or insurance company separate account.
2. Short Sales
3. Direct purchase or sale of commodities
4. Direct Mortgages
5. Directly-owned Real Estate not held in a well diversified, co-mingled investment portfolio, such as a mutual fund or insurance company

B. Limitations

Investments in corporate common stock, convertible bonds and convertible preferred issues should be targeted at sixty percent (60%) of the Fund at market value. A maximum of sixty-five percent (65%) of the Fund, at market value, may be invested in equities. No restriction is placed on the Fund's percentage holdings of bonds or cash.

C. Selection of Investment Managers and Investment Options

The City Commission 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 research and the adequacy of information management, compliance and trading systems.
4. **Performance** – evaluate historical returns and risks relative to passive indexes, peer groups, and other competing firms.
5. **Management Fees** – evaluate the proposed fee structure relative to the industry and other competing candidates.

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

D. 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.

The City Commission shall evaluate the investment managers/options at least annually using the framework in (C) above, in addition to using any other factors the City Commission 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 Commission may choose one of several courses of action including assigning the investment manager/option a temporary probationary status known as the Watch List, undertaking an in-depth review, or terminating the investment manager/option.

Being placed on the Watch List is meant to convey the City Commission's increased level of concern about a particular issue or event, which if left unresolved, could endanger the future relationship. An in-depth review may be undertaken as a result of the manager/option failing to rectify the issues that led to their placement on the Watch List, or in response to a major adverse change in the investment manager's organization or investment process to the extent that the City Commission 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.

E. Elimination of Investment Managers and Investment Options

The City Commission may eliminate a Plan investment manager/option any time the City Commission deems it in the best interests of the Plan. The City Commission 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 Statement, or this Statement 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 Commission may also add, eliminate, or replace any Plan investment option as the needs of the Plan change, or for any other prudent reason.

IV. INVESTMENT PERFORMANCE OBJECTIVES — QUARTERLY EVALUATION MECHANISMS

The below listed performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Manager:

A. Total Fund Performance:

1. The return of this portfolio is expected to exceed the return of a portfolio comprising forty percent (40%) of the Standard & Poor's 500 Stock Index (S&P500), twenty percent (20%) of the Russell 2500 Value (R2500V) and forty percent (40%) of the Lehman Brothers Aggregate Bond Index (LBAB).
2. Relative to other similar Investment Managers, it is expected the Manager's performance with regard to the total return of the Fund will be in the top forty percent (40%) of the appropriate Mobius Universe over rolling three year periods. When performance is below the standard, the Manager will report to the Trustees the reasons for the occurrence and the steps taken to avoid reoccurrence.

3. On an absolute basis, it is expected that the total return of the Fund will equal or exceed the actuarial earnings assumption, and equal or exceed the Consumer Price Index plus 3% over rolling three year periods. When performance is below these standards, the Manager will report to the Trustees the reasons for the occurrence and the steps taken to avoid reoccurrence.
4. From time to time the performance monitor may adjust or change the evaluation indices and/or universes so as to more adequately measure and evaluate the Investment Manager's particular equity and fixed Income investment style. Any such adjustment or change would be communicated to both the Investment Manager and the Pension Board Trustees at the time of said adjustment or change.

V. MATURITY AND LIQUIDITY REQUIREMENTS

The Fund's Investment Manager(s) shall be kept informed of the liquidity requirements of the Fund. The Fund's investment portfolio shall be structured so as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, cash needs and anticipated cash-flow requirements shall be matched with the maturity schedule of the portfolio.

VI. EXPECTED ANNUAL RATE OF RETURN

The Board shall determine, in consultation with its actuary, consultant and investment professionals, the total expected annual rate of return for the current year, for the next several years, and for the long term thereafter. This determination is to be filed with the Department of Management Services as provided in Florida Statutes, Section 112.661.

VII. 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 or 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 vs. 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.

VIII. MASTER REPURCHASE AGREEMENT

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

IX. BID REQUIREMENT

The Board requires that the Investment Manager(s) competitively bid securities as appropriate and select the most advantageous bid.

X. INTERNAL CONTROLS

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

The Board shall 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.

XI. 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.

XII. REPORTING

The Fund's 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.

XIII. VALUATION OF ILLIQUID INVESTMENTS

No illiquid investments shall be utilized by this Fund.

XIV. FLORIDA STATUTES AND APPLICABLE CITY ORDINANCES

If at any time this document is found to be in conflict with Florida Statutes, or the applicable City Ordinances, the Statute and Ordinances shall prevail.

The plan intends to comply with the Protecting Florida's Investments Act. The investment manager is required to divest of any investments in companies with certain business operations in the countries of Sudan and Iran or that participate in a boycott of Israel and are designated as "scrutinized companies" as defined in Chapter 215.473 and 215.4725, Florida Statutes.

Compliance with Chapter 2023-28, Laws of Florida

The Board and its investment managers shall comply with the applicable requirements of Chapter 2023-28, Laws of Florida, including Section 112.662.

1. Definition of pecuniary factor: The term "pecuniary factor" is defined as a factor that an investment 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 retirement system. The term does not include the consideration of the furtherance of any social, political, or ideological interests." [112.662(1)]
2. Exclusive consideration of pecuniary factors: 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 Investment Consultant will provide Investment Managers for consideration who invest only based on pecuniary factors as defined by Section 112.662, Florida Statutes
3. Proxy voting: Only pecuniary factors may be considered when voting proxies. [112.662(3)]
4. Filing requirements: The Board shall timely comply with the reporting requirement of Section 112.662 by filing a comprehensive report by December 15 of each odd-numbered year. [112.662(4)]. Investment managers and the Board's investment consultant shall assist in the preparation of required reports and shall annually confirm to the Board their compliance with Chapter 2023-28, if

applicable.

5. Contracting and external communication requirements: Manager contracts shall comply with Section 215.855 as follows:

Any written communication made by an investment manager to a company in which such manager invests public funds on behalf of the Board must include the following disclaimer in a conspicuous location if such communication discusses social, political, or ideological interests; subordinates the interests of the company's shareholders to the interest of another entity; or advocates for the interest of an entity other than the company's shareholders:

The views and opinions expressed in this communication are those of the sender and do not reflect the views and opinions of the people of the State of Florida.

6. If a Request for Proposals document is issued for Investment Manager Services, the solicitation document must include the following:

"The Board of Trustees may not request documentation of or consider a vendor's social, political, or ideological interests when determining if the vendor is a responsible vendor. Additionally, the Board of Trustees may not give preference to a vendor based on vendor's social, political, or ideological interests."

XV. FILING OF INVESTMENT POLICY

Upon adoption by the board, the investment policy shall be promptly filed with the Department of Management Services and the plan's sponsor and consulting actuary. The effective date of the investment policy, and any amendment thereto, shall be the 31st calendar day following the filing date with the plan sponsor.

XVI. REVIEW AND AMENDMENTS

It is intended that the Investment Manager and Trustees review this document periodically. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If at any time the Investment Manager feels that the specific objectives herein cannot be met, or the guidelines constrict performance, the Trustees should be so notified in writing. By the initial and continuing acceptance of this Investment Policy Statement, the Investment Manager accepts the provisions of this document.