

**City of Pharr**

---

**OTHER POST-EMPLOYMENT  
BENEFIT TRUST FUND  
INVESTMENT POLICY**

**JUNE 2016**

# Table of Contents

---

*Section 1* — INTRODUCTION

*Section 2* — PURPOSE

*Section 3* — INVESTMENT POLICY AND SELECTION

*SECTION 4* — INVESTMENT GUIDELINES FOR ASSET MANAGEMENT

*Section 5* — INVESTMENT OPTIONS

*Section 7* — PERFORMANCE EVALUATION

*Section 8* — DEFINITIONS

## *Section 1* — INTRODUCTION

---

The City of Pharr Post Employment Benefit Plan (the “Plan”), a retirement plan qualified under Internal Revenue Code Section 115, provides retirement benefits to eligible employees of City of Pharr.

The assets of the Plan are held in a tax-exempt trust for the benefit of the Plans’ participants and beneficiaries. The objective of the Plan is to provide employees with a source of retirement income from accumulated contributions and investment returns.

The Pension Plan City Investment Officers (the “City Investment Officers”) is responsible for overseeing and monitoring the investment of the Plans’ assets. It will generally be responsible for:

- A. Promulgating the Plans’ Investment Policy Statement.
- B. Selecting the investment funds in which the Plans’ assets will be invested and/or the investment managers who will be responsible for investing the Plans’ assets.
- C. Reviewing and making changes in the investment funds and/or investment managers for compliance with the Investment Policy Statement.
- D. Making revisions to the Investment Policy Statement to reflect changing conditions within the Plans or the investment environment or to make it more effective.

The City Investment Officers is authorized to retain professional investment advisory services to provide advice with respect to the investment and monitoring of the Plans’ assets under the guidance of the City Investment Officers.

This Investment Policy Statement is intended to set forth the general policies that the City Investment Officers will apply in selecting, monitoring and modifying the investments and/or investment managers for the Plans. While the City Investment Officers intends for this Investment Policy Statement to assist the City Investment Officers in satisfying its fiduciary duties and in making prudent investment decisions, no investment results or performance is, or can be, guaranteed; and no such guarantee is intended.

## *Section 2* — **PURPOSE**

---

This Investment Policy Statement contains guidelines regarding the investment of the assets held in trust for the Plan to assist the members of the City Investment Officers in effectively selecting, monitoring and evaluating the investments and/or investment managers for the Plan.

The purposes of this Investment Policy Statement are to:

- A. Set forth the investment objectives, policies and guidelines, which the City Investment Officers judges to be appropriate and prudent, in consideration of the needs of the Plan.
- B. Establish the criteria against which the investments and/or the investment management organizations selected by City Investment Officers are to be measured.
- C. Set forth the target asset mix for the investment of the Plans' assets.
- D. Serve as a review document to guide the City Investment Officers' ongoing oversight of the investment of the Plans' assets.

## Section 3 — INVESTMENT OBJECTIVES

---

It is the intention of the City Investment Officers to build and maintain the Plans' trust through employer contributions that satisfy legal requirements and investment returns. The City Investment Officers expects that the amount of investment income plus capital appreciation from the Plans' trust combined with contributions to the trust will exceed the amount of pension payments. Over shorter periods, City Investment Officers understands that at times investment income plus capital appreciation plus contributions to the trust may, in total, be less than the amount of pension payments.

Because of the long-term nature of the Plans' obligations, City Investment Officers' intent is to consider the following goals in managing the trust:

- A. Long-term (*i.e.*, five years and more) performance objectives;
- B. Maintenance of cash reserves sufficient to pay benefits under the Plan; and
- C. Achievement of the highest long-term rate of return practicable without taking excessive risk that could jeopardize the Plans' funding policy or subject the Plans' sponsors to undue funding volatility. **Due to the long-term nature of this investment, the standard risk of safety over liquidity and return will be adjusted to be balances over safety and return.**

The specific investment performance objective is for the trust to achieve a rate of investment return over any five-year period that both:

- A. Meets or exceeds the Plans' actuarial interest rate assumption,
- B. Exceeds the return of the following custom market index: 2% cash, 30% S&P 500, 5% Russell 2000 index, 5% Russell Midcap index, 15% EAFE index, and 43% Barclays Capital Aggregate Bond index.

In carrying out the foregoing policy and objectives, the trust will be invested in accordance with the guidelines set forth in Section 4.

## ***Section 4* — INVESTMENT GUIDELINES FOR ASSET MANAGEMENT**

---

The assets of the Plans will be invested in a manner consistent with generally accepted standards of fiduciary responsibility. City Investment Officers will act with the care, skill, prudence and diligence under the prevailing circumstances 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. The City Investment Officers will discharge its duties with respect to the investment of the trust solely in the interest of the participants and beneficiaries of the Plan.

The City Investment Officers will select appropriate investment alternatives using the following criteria:

- A. The City Investment Officers may select investment managers from one or more of the following:
  - 1) Mutual fund management companies;
  - 2) Banks;
  - 3) Registered investment advisory firms; and
  - 4) Insurance companies.
- B. Each investment manager must clearly articulate for the City Investment Officers the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- C. Each investment manager must be able to provide for the City Investment Officers historical quarterly performance numbers calculated on a time-weighted basis and reported net of all fees.
- D. Each investment manager must provide for the City Investment Officers volatility measurements so that an appropriate risk/return profile can be evaluated.
- E. Each investment manager must be able to provide for City Investment Officers information on its history, key personnel, fee schedules and expenses, and current investment exposure.
- F. A City of Pharr designated Investment Officer may change the Target Allocation and ranges and shall report any change to the City Commission

The City Investment Officers recognizes that the trust's long-term investment performance will be greatly affected by the mix of the asset classes in which it is invested; accordingly, because of the policy and objectives stated in Section 3, the trust's asset allocation will favor equity investments.

Specifically, the City Investment Officers has identified the following asset classes to be appropriate for investment by the trust. In addition, the City Investment Officers has defined the following ranges to be used as parameters of investment percentages the Plans' assets:

	<i>RANGE</i>		
	<i>MINIMUM</i>	<i>MAXIMUM</i>	<i>TARGET</i>
<b>Fixed Income Assets:</b>	<b>38%</b>	<b>48%</b>	<b>43%</b>
<b>Large cap</b>	<b>25%</b>	<b>35%</b>	<b>30%</b>
<b>Mid cap</b>	<b>0%</b>	<b>10%</b>	<b>5%</b>
<b>Small cap</b>	<b>0%</b>	<b>10%</b>	<b>5%</b>
<b>International</b>	<b>10%</b>	<b>20%</b>	<b>15%</b>
<b>Cash/Money Market Assets</b>	<b>0%</b>	<b>7%</b>	<b>2%</b>
<b>Total</b>			<b>100%</b>

Managers that manage a separate account for the trust shall have full discretion over portfolio investment decisions, subject to the following guidelines and restrictions. To the extent that commingled or mutual fund vehicles are utilized, the investment policies of those vehicles are the operative documents established herein:

- A. Investment managers will be delegated full discretion to exercise all voting rights including, but not limited to, voting proxies.
- B. For purposes of the foregoing, real estate, and securities convertible to common stock shall be classified as equity assets; money held by an insurance company in its general account shall be classified as fixed income assets

- C. Each investment manager will diversify each asset class appropriately and will seek to moderate volatility and risk as is appropriate for the asset class. The investment manager will not invest in commodities, private placements, or letter stock. The investment manager will not engage in non-covered short sales or margin trading. Transactions consisting of the purchase or sale of futures or options contracts may be permitted to the extent that they are used to diversify or equitize the portfolio and not used as speculative investments. Speculative investment in these derivatives is not permitted without the previous written approval of the City Investment Officers.
- D. The investment manager must ensure, to the extent practicable, that all equity transactions (whether agency or principal) are executed at competitive rates and all fixed income transactions are competitively bid and must explain in writing to the City Investment Officers the reasons for any unusually high transaction costs.
- E. The investment manager, when practicable, will disclose to the City Investment Officers any significant change in the investment manager's personnel, organization, ownership, or asset management policy or method.

## ***Section 5* — PERFORMANCE EVALUATION**

---

The investment performance of the individual investments and/or investment managers will be monitored quarterly and reviewed at least annually relative to the objectives and guidelines described herein. The investment performance evaluations may include performance analyses and comparisons with the appropriate indices and investment fund universes.

The City Investment Officers do not expect to respond to short-term investment developments, recognizing that the accumulation of value for eventual retirement benefit payout is generally a long-term objective and that investment competence must be measured over a complete market cycle. The City Investment Officers, nevertheless, may act on interim qualitative judgments. Qualitative factors which will be reviewed on an ongoing basis include any fundamental changes in a manager's investment philosophy, organizational structure, financial condition (including any significant changes in total assets under management), personnel and fee structure.

The City Investment Officers has established as one of its investment fund and/or investment manager selection criteria that, as a general proposition, over a complete market cycle, each of the Plans' investment funds and/or investment managers should typically rank in the upper half of the universe of all active investment funds and/or active managers in the same asset class with similar investment objectives.

### **Performance Review**

The investment options will be reviewed at least annually. Among other things, the performance review of the investment options may include the following:

- A. The measurement of investment returns.
- B. A comparison of investment returns to their appropriate benchmarks.
- C. A ranking of investment returns within their appropriate universes.
- D. The measurement of risk.
- E. An assessment of each investment's adherence to the stated policies and objectives.

## **Termination of Investment Options**

Reasons for considering replacing an investment and/or investment manager may include, but are not limited to:

- A. Significant under-performance relative to the appropriate benchmark.
- B. Significant under-performance relative to the appropriate universe average.
- C. Significant change in risk (increase or decrease).
- D. Change or loss of key personnel, relative to the significance of the particular investment.
- E. Significant increase or decrease in assets under management.
- F. A change in business practices.
- G. A change in investment style or discipline.
- H. Failure to alert the City Investment Officers to pertinent changes, lawsuits or regulatory violations.
- I. Investing in non-approved securities.
- J. Identification by the City Investment Officers of a more suitable investment option.
- K. City Investment Officers decision to change investment managers.

## **Other Review**

The Investment Policy Statement will be reviewed at least annually to determine the continued appropriateness of the Investment Policy Statement in achieving the stated purpose. However, it is not expected that the Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets will not require adjustments to the Investment Policy Statement.

A review of the program concerning the diversity of options, the use of the options, the growth of the program, and any strategic planning concerning demographics will also be conducted periodically. The City Investment Officers will receive a report on investment performance quarterly.

## ***Section 6* — INVESTMENT MANAGER SELECTION**

---

The assets of the Plan are invested under the supervision of the City Investment Officers. The City Investment Officers has chosen to select investment managers from the following asset classes. In addition the City Investment Officers has established an investment objective for each asset class and established appropriate benchmarks and universes to be used to evaluate the investment options.

The City Investment Officers understands that the indexes selected have no fees associated with their returns and the universe average is net of the fees of the underlying funds. The investment options are not required to exceed their benchmarks and universes every quarter, but are used as a basis for judging the appropriateness of the investment option selected over a full market cycle.

The asset class, objective, benchmark and comparative universe are outlined in Attachment A.

## ***Section 7* — DEFINITIONS**

---

The following terms will have the following meanings:

### **Investment Manager**

“Investment manager” means the asset manager or managers expressly authorized and empowered to cause its portion of the trust to be invested and reinvested in its sole discretion (but governed by the provisions of this Investment Policy Statement) within the asset class or classes for which it is employed to manage.

### **Investment Return**

“Investment return” means investment income and realized and unrealized gains and losses, all net of investment fees and expenses.

### **Market Cycle**

For purposes of this Investment Policy Statement a “market cycle” will be defined as a market peak-to-trough-to-peak (or a trough-to-peak-to-trough).

### **Rate of Return**

“Rate of return” means the annual rate of investment return.

### **Investment Officer**

“Investment Officer” refers to the council or charter designated officials with the responsibility of investing City funds. Investment officers are required to meet educational requirements under the Public funds Investment Act.

# Attachment A

## A. Fixed Income Options

Asset Class	Objective	Benchmark	Universe
<b>Cash/Cash Equivalents</b>	The investment objective of the Cash Option is to provide capital preservation.	The 3-Month Treasury Bill is the benchmark.	N/A
<b>Intermediate Bond</b>	The investment objective of the Bond Option is to provide income with a minor focus on capital growth.	The Barclays Capital Aggregate Bond Index is the benchmark.	The Bond Option selected will be compared to a universe of Intermediate-Term Bond mutual funds.

## B. Equity Options - Domestic

Asset Class	Objective	Benchmark	Universe
<b>Large Capitalization Blend</b>	The investment objective of the Stock Index option is to track the performance and risk of the Standard & Poor's 500 index.	The S&P 500 Index is the benchmark. The investment options will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Large Capitalization Blend mutual funds.
<b>Mid Capitalization Blend Style</b>	The investment objective of the Mid Capitalization Blend Option is to provide long-term growth of capital primarily using domestic mid capitalization securities with a blend of value and growth oriented styles of management.	The Russell Mid-cap Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Mid Capitalization Blend mutual funds.
<b>Small Capitalization Blend Style</b>	The investment objective of the Small Capitalization Blend Option is to provide long-term growth of capital primarily using domestic small-cap securities with a blend of value and growth oriented styles of management.	The Russell 2000 Stock Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of Small Capitalization Blend mutual funds.

## C. Equity Options – Non U.S.

Asset Class	Objective	Benchmark	Universe
<b>International Stock</b>	The investment objective of the International Stock Option is to provide long-term growth of capital primarily using securities of companies located outside of the United States.	The Morgan Stanley/Capital International (MSCI) Europe, Australia and Far East (EAFE) Stock Index is the benchmark. The investment option will be compared to the return and the risk of the benchmark.	The investment option selected will be compared to a universe of International Stock mutual funds.

*Appendix A*  
**SELECTED INVESTMENT OPTIONS**

The following Asset Classes and investment options have been selected for the Plan:

<b>Asset Class</b>	<b>Investment Option</b>	<b>Ticker</b>
Intermediate Bond	JPMorgan Core Bond R5	JCBRX
Large Blend Index	Vanguard 500 Index Signal	VIFSX
Mid-Cap Blend	Dreyfus Opportunistic Midcap Value I	DVLIX
Small-Cap Blend	Invesco Small Companies Inst	ATIIX
International	American Funds EuroPacific Gr R6	RERGX