

City of Fort Worth  
Department of Finance  
Investment Policy and Strategy  
OPEB Trust

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**I. OVERVIEW AND PURPOSE**

This investment policy and strategy applies to all accumulated assets for the City of Fort Worth Other Post-Employment Benefits Trust (“Trust”) created by the Fort Worth City Council by Resolution No. 3779-08-2009, and its consultants, agents, investment managers, advisory boards, Trustees, Trust Administrator and assigned staff.

All investment activities shall be conducted in full compliance with applicable City ordinances as well as state and federal rules and regulations.

The purpose of this document is to provide the Trustee and its Sub Advisors with a set of objectives, parameters and guidelines to assist in the administration of the Trust; to guide investment managers in structuring portfolios consistent with desired performance result and acceptable risk levels; to assure the assets are managed in a prudent fashion and to serve as the framework for all investment activities related to the Trust.

**II. INVESTMENT POLICY AND OBJECTIVES**

The primary obligations of the City’s governing body in investing assets are to do so for the exclusive benefit of the beneficiaries. Emphasis must be placed upon the consistent protection of the Trust’s assets and growth performance, i.e., the achievement of adequate investment growth must not be at the expense of the protection of the assets over the investment horizon. Specific objectives of investment activities carried out by the Trustee and its Sub Advisors include the following:

- A. The expected annual rate of return for the portfolio will be equal to the actuarial assumption, until amended by the City Council (“Council”).
- B. Individual investment managers will not be measured against the aggregate fund objective stated in section II. A., but will be compared to appropriate market indices and a blended Plan Target Benchmark outlined in Section III, subsection 7 of the Policy.

## 1. AUTHORITY AND OVERSIGHT PROCEDURES

A. By law, the City Council retains ultimate fiduciary responsibility for the OPEB Trust Fund regardless of management assignment. The Council shall receive quarterly reports and annually review and adopt this Policy. The Investment Committee designated by the City Council is responsible for reviewing and authorizing all broker/dealers. The City Council has delegated the responsibility for conducting investment transactions with the Trustee and its Sub Advisors. The Trustee and its Sub Advisors will provide investment information to the Council concerning investment decisions, including rebalancing asset allocation, and portfolio performance on a quarterly basis.

B. The Chief Financial Officer/Director of Financial Management Services is responsible for monitoring the portfolio and reports submitted by the Trustee and its Sub Advisor.

C. The Trustee and its Sub Advisor shall maintain responsibility for investing the assets in the Trust. All assets will be held by the Trustee. The advisor will provide performance analysis that will include, but not be limited to, a strategic analysis including a report on asset allocation, risk analysis, and appropriate, if any, changes to the percentages therein. This study will be used to assist the Chief Financial Officer/Director of Financial Management Services and Investment Committee in the determination of the appropriate investment Policy.

D. Any business organization offering to engage in an investment transaction with the Trust must be provided with a copy of this Investment Policy and Strategy, with "business organization" defined as "an investment pool or investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio that has accepted authority granted by the entity under the contract to exercise investment discretion in regard to the investing entity's funds." The business organization must provide the City with a written instrument (in a form acceptable to both parties) executed by a representative of the business organization that substantially acknowledges that the business organization has: (a) received and reviewed this Investment Policy and Strategy; and (b) implemented reasonable procedures and controls in an effort to preclude investment transactions with the Trust that are not authorized by this Investment Policy and Strategy. Any material changes

to this Investment Policy and Strategy will require re-certification by each business organization.

E. The City's Investment Committee will perform a strategy and performance review at least semi-annually. The Committee will review and act on any potential need for refinement or revision of the OPEB Trust's policies or strategies.

## **2. STANDARDS OF CARE**

The standard of care to be used shall be the "prudent person" standard as established by the Act and shall be applied in the context of managing the overall OPEB Trust Fund. The "prudent person" standard states that,

"Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

In determining whether a Trustee has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds, or funds under the Trustee's control, over which the Trustee had responsibility rather than a consideration as to the prudence of a single investment; and (2) whether the investment decision was consistent with this written investment Policy.

## **3. ETHICS AND CONFLICTS OF INTEREST**

Employees of the City of Fort Worth, the Trustee or its Sub Advisors involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees of the City of Fort Worth involved in the investment process shall disclose any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City's investment program.

# **III. INVESTMENT GUIDELINES**

## **1. EXISTING INVESTMENTS**

Except as provided by Texas Government Code Chapter 2270, the City is not required to liquidate investments that were authorized investments at the time of purchase.

## 2. AUTHORIZED INVESTMENTS

Investments consistent with the objectives contained in Section II, herein, other than those specifically prohibited shall be authorized. Equities will comprise a diversified portfolio of domestic small, mid and large cap equity, Real Estate Investment Trusts (“REITs”), and international equity investments.

### Permitted Asset Classes and Security Types

#### **Equity Securities**

- Domestic listed securities
- Equity and equity-related securities of non-US corporations, in the form of American Depositary Receipts (“ADRs”)
- Equity Mutual Funds and Exchange Traded Funds (ETFs)
- Large Cap
- Mid Cap
- Small Cap
- International
- Emerging Markets
- REITs

#### **Fixed Income Securities**

- Fixed Income Mutual Funds and Exchange Traded Funds (ETFs)
- Corporate
- Government
- High Yield
- International
- Bank Loan

If individual fixed income securities are purchased, the following parameters will be followed:

#### Eligible Securities:

- Debt obligations of the U.S. Government, its agencies, and Government Sponsored Enterprises
- Mortgage-Backed Securities (MBS)

- Asset Backed Securities (ABS)
- Collateralized Mortgage Obligations (CMO)
- Commercial Mortgage-Backed Securities (CMBS)
- Corporate debt securities issued by U.S. or foreign entities including, but not limited to, limited partnerships, equipment trust certificates and enhanced equipment trust certificates
- Securities issued under SEC Rule 144A
- Municipal Bonds

### **Quality**

The portfolio will maintain a minimum weighted average effective quality of A- at all times. At the time of purchase, individual securities shall have a minimum effective quality rating of BBB-. Note, high yield fixed income can be purchased only in a diversified mutual fund or exchange traded fund.

For purposes of determining an effective rating, when three agencies rate a security (S&P, Moodys, Fitch) the middle rating will be used. When only two of the three agencies rate a security the lower of the two ratings will be used. When only one agency rates a security that rating will be used.

### **Duration**

The manager will maintain the portfolio duration within +/- 25% of the Bloomberg Barclays U.S. Aggregate Bond Index duration at all times.

### **Diversification**

No more than 5% of the portfolio assets may be invested in any individual issuer with the exception of securities issued or guaranteed by the U.S. Government, its agencies, and Government Sponsored Enterprises.

No more than 30% of the portfolio may be invested in securities issued under Rule 144A without registration rights (no limit on Rule 144a securities with registration rights).

## **3. MATURITY AND LIQUIDITY**

The OPEB trust assets shall provide sufficient liquidity, if necessary, for payment of direct medical benefits and expenses.

## **4. PORTFOLIO COMPOSITION, RISK AND DIVERSIFICATION**

Assets of the OPEB Trust Fund shall be invested in a broadly diversified portfolio consisting of equity, debt, and cash equivalent securities. The portfolio shall also

be structured in a manner to provide diversification within each asset class and be allocated within the ranges specified below:

|                           | <u>Range</u> | <u>Target</u> |
|---------------------------|--------------|---------------|
| Equities                  | 20%-40%      | 30%           |
| Fixed Income              | 50%-80%      | 65%           |
| Cash and Cash Equivalents | 0%-20%       | <5%           |

The Trustee and its Sub Advisor is authorized by this policy to make asset allocation decisions to reallocate or redirect either contributions or investments held by the OPEB Trust Fund in order to take advantage of changing market conditions. Any move that will cause the allocation of the investment classes to vary from the above allocation percentages of any asset class requires approval by the City Council.

**The following are prohibited purchases/transactions:**

1. More than 5% of the total equity allocation invested in individual equity securities of any one company at market value
2. More than 5% of the total debt allocation invested in debt instruments in any single issuer with the exception of US Treasuries and agencies
3. Short sales
4. Margin or leveraged purchases
5. Commodities
6. Real estate (with the exception of REITs)
7. Art objects or collectables
8. Options
9. Warrants
10. Derivative investments
11. Oil and Gas Leases
12. Hedge Funds
13. Private Equity Funds
14. Precious Metals
15. Privately negotiated investment agreements with financial institutions
16. Other investments classified as 'alternative'

**5. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

Purchases and sales of authorized investments will only be made through financial institutions that are qualified as public depositories by the State of Texas or are "primary dealers" as designated by the Federal Reserve Bank of New York or are

broker/dealers that qualify under Securities and Exchange Commission, or by direct purchases of an approved open-ended mutual fund family.

The Trustee will perform due diligence and maintain information on each broker/dealer, including a process to ensure best execution. The Trustee shall review the performance, financial condition and registration of all qualified counter-parties on an ongoing basis. Results will be provided to the Investment Committee for review upon request.

#### **SAFEKEEPING AND CUSTODY**

All securities purchased by the Trustee or its Sub Advisors shall be properly designated as an asset of the OPEB Trust Fund and held by the Trustee, chartered by the United States Government or the State of Texas, and/or a financial institution approved by the National Association of Security Dealers. No withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the City Council or Trust Administrator.

The City Council or the Trustee will execute third party custodial agreements with banks or financial institutions. Such agreements will include details as to the responsibilities of each party, the costs to be borne by each party, notification of security purchases, sales, delivery, repurchase agreements and wire transfers, safekeeping and transaction costs, and procedures in case of unforeseen circumstances.

#### **6. BID REQUIREMENTS FOR DEBT INSTRUMENTS**

After the Trust Administrator and/or the investment manager has selected one or more optimal types of investments based on maturity date(s) to meet cash flow needs and market conditions, a minimum of three qualified brokers and/or dealers will be contacted and asked to provide bids on the securities to be purchased.

In most situations the competitive bid process shall be utilized, except when securities are purchased as an initial offering. The investment manager will choose the appropriate brokers or dealers from among those on the approved broker/dealer list based on expertise, competitiveness and the ability to execute the transaction and deliver the securities on a timely basis. A minimum of three (3) bids will be obtained.

- A. Bids will be held in confidence until the best bid is determined and awarded,

- B. Documentation will be retained for all bids, with the winning bid clearly identified,
- C. If for any reason the highest bid (on sales of investments) or the lowest bid (on purchases of investments) is not selected, then the reasons leading to that decision will be clearly documented.

## **7. PERFORMANCE MEASURES**

The Investment Committee will meet with the Trustee or its Sub Advisor at least annually to review portfolio performance. The Trustee or its Sub Advisor will review results quarterly to confirm adherence to the policy guidelines; compare the investment results with funds using similar policies and benchmarks; and identify risks and opportunities occurring in the equity and debt markets.

The following events indicate risk to the safety and performance of the Trust. Failure to appropriately address risk may result in termination of the Trustee or its Sub Advisor.

- A. Consistent under-performance of the stated target index for three consecutive quarters.
- B. Material changes in the managers' organization including personnel, ownership, acquisitions or losses of major accounts.
- C. Substantial changes in basic investment philosophy.
- D. Failure to observe any guidelines as stated in this policy.

The City of Fort Worth blended benchmark will be defined as the target portfolio return, based on the following allocation targets:

### **Portfolio Blended Benchmark**

- 15.50% S&P500 Index
- 3.00% Russell Mid-Cap Index
- 4.50% Russell 2000 Index
- 2.00% MSCI Emerging Market Index
- 4.00% MSCI EAFE Index
- 1.00% Wilshire REIT Index
- 51.00% Bloomberg Barclays Capital US Aggregate Index
- 14.00% ML 1-3 Year US Corp/Gov't
- 5.00% Citi 1Mth T-Bill.

## **IV. INTERNAL CONTROLS**

The Chief Financial Officer/Director of Financial Management Services and Trustee are responsible for mutually establishing and maintaining an internal and



external control structure designed so that assets are reasonably protected from loss, theft, or misuse. Such internal controls shall consist, at a minimum, of the following:

- A. All securities purchased or sold will be transferred only under the “delivery versus payment” (DVP) method to ensure that funds or securities are not released until all criteria relating to the specific transaction are met,
- B. The Trustee is authorized to accept, on behalf of and in the name of the City of Fort Worth OPEB Trust Fund, securities in return for investment of funds,
- C. Securities transaction confirmations shall fully describe the various securities held. The receipt or confirmation shall state that the investment is held in the name of Trustee, or its depository nominee name, for the benefit of the City of Fort Worth OPEB Trust, and
- D. The written system of internal controls and operational procedures shall be subject to review by the City’s internal and external auditors as part of the annual financial audit.

## **V. REPORTING**

Quarterly reports concerning the investment activities, investment portfolio and performance will be submitted to the Investment Committee and placed on the agenda of the City Council. Other information may include recent market conditions, economic developments, and anticipated investment conditions.

## **VII. POLICY REVIEW**

The Fort Worth OPEB Trust Investment Policy shall be reviewed by the Investment Committee and adopted by the City Council at least annually. The adopting resolution shall include any changes made to the Policy. Any modification to the Investment Policy shall be provided to the Trustee and its Sub Advisor and acknowledged in writing via Appendix A.

Policy Adopted:

| Date               | M&C Reference | Comments   |
|--------------------|---------------|--|
| October 10, 2017   | G-19127       | Policy Adopted   |
| September 11, 2018 | G-19362       | Policy Approved – No Changes   |
| September 10, 2019 | 19-0116       | Section II. Investment Policy and Objectives, item B updated and Section III. Investment Guidelines added new section “Existing Investments”   |
| September 22, 2020 | 20-0687       | Policy Approved – No Changes   |
| August 24, 2021    | 21-0594       | Section III. Investment Guidelines, item 1. Existing Investments, Quality<br>Section III. Investment Guidelines, item 1. Existing Investments, Duration<br>Section III. Investment Guidelines, item 1. Existing Investments, Diversification, Second paragraph |
| September 13, 2022 | 22-0661       | Policy Approved – No Changes   |

## Appendix A

### Trustee, Sub Advisor or Investment Manager's Acknowledgment

I, the undersigned, acknowledge that I have received the investment policy for City of Fort Worth OPEB Trust Fund, dated\_\_\_\_\_. I affirm that I have read and understand said Policy, and do hereby agree to abide to the guidelines expressed in the Policy.

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Name of Trustee

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Signed

Date

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Name of Sub Advisor

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Signed

Date