



### Agenda Item Details

Meeting	Oct 17, 2018 - City Commission Meeting & Summary
Category	8. APPEARANCES BY CITY COMMISSION APPOINTED BOARDS AND COMMITTEES, AND OTHER GOVERNMENTS
Subject	8.01 (Adjourn as City Commission and Convene as Sinking Fund Commission) Approval of Revisions to the Pension Investment Policy (236) -- James O. Cooke, IV., City Treasurer-Clerk
Access	Public
Type	Action
Fiscal Impact	No
Budgeted	No

Recommended Action Option 1: Approve the proposed revisions to the Pension Investment Policy (236)

### Public Content

For more information, please contact: Jim Cooke, City Treasurer-Clerk, extension 8146

### *Statement of Issue*

The City's Pension Investment Policy (236) provides guidance to the City Treasurer-Clerk on the investments made by the Pension Plan. Every three to five years, the Investment Advisory Committee and the City Treasurer-Clerk staff review the asset allocation of the Pension Plan. The asset allocation study is conducted by the Pension Plan's Investment Consultant to review potential investment mixes and the likely returns associated with each mix as well as the City's risk tolerance. The Pension Plan's Investment Consultant, Segal Marco, began the asset allocation study in March 2018, analyzing several possible asset allocation models through an iterative process that were reviewed by both the Consultant and the City Treasurer-Clerk staff. Segal Marco is recommending the addition of private credit as part of the asset allocation study. This revision will benefit the Plan by increasing the expected rate of return and reducing the volatility of the returns in our portfolio. The recommended asset allocation was presented to the Investment Advisory Committee at their meeting on May 16, 2018, and unanimously approved on August 30, 2018. The proposed revisions to the Pension Investment Policy (236) that will implement the revised asset allocation were unanimously approved by the Investment Advisory Committee on September 24, 2018.

The most significant change to the asset allocation is the proposed addition of a new asset class, at a target of 5%: Private Credit. The addition of this new asset class will provide greater diversification of the Pension Plan's investment portfolio, improving expected returns and reducing the expected volatility of those returns (risk). There are a number of other changes to the Pension Investment Policy that are designed to update its language and make its presentation more succinct.

### *Recommended Action*

Option 1: Approve the proposed revisions to the Pension Investment Policy (236).

### *Fiscal Impact*

N/A

### Supplemental Material/Issue Analysis

### *History/Facts & Issues*

The City contracts with an investment consultant to provide professional services as needed for the City's Pension Plan. In addition to reviewing the investment performance of the Plan on an ongoing basis, the Investment Consultant, Segal Marco, also assists with the development of an asset allocation study for the plan, helping the plan adopt a prudent and diversified investment strategy. This study is usually done every three to five years to review potential investment mixes and the likely returns associated with each mix as well as the City's risk tolerance. The last study was completed in August, 2013.

Segal Marco began the current asset allocation study by analyzing the attributes and characteristics of a variety of asset classes that could be added to the Pension Plan's asset allocation to improve returns and/or reduce the volatility of returns (risk). The study included an analysis of potential returns from various asset classes as well as the expected correlation of returns among these various asset classes. Segal Marco analyzed the impact of adding a number of potential new asset classes using its asset allocation model. Potential new asset classes considered included high yield bonds, inflation linked bonds, international bonds, emerging market bonds, private credit, hedge funds, commodities, farmland, oil and gas, and infrastructure. The investment consultant then used an iterative process during the study period to provide variations of potential mixes to arrive at an optimal asset allocation mix. Segal Marco and staff brought forward six potential asset allocation mixes, including the recommended asset allocation mix, for the Investment Advisory Committee to consider. The Investment Advisory Committee unanimously approved the recommended asset allocation, which provided for the inclusion of one new asset class to the asset allocation mix: Private Credit.

Private Credit is investing in funds that make loans to middle market companies that are secured by the assets of the borrower. The current asset allocation target for Domestic Bonds (including Bank Loans) is 20%, which would decline to 19% under the recommended changes. Private Credit would be targeted at 5% of the overall portfolio. The current and proposed asset allocation targets are shown below:

	<u>Current</u>	<u>Proposed</u>
Equity		
Domestic	40%	36%
International	10%	10%
Emerging Markets	5%	5%
Bonds		
Domestic Bonds	20%	19%
Alternatives		
Private Equity	5%	5%
Private Credit	0%	5%
Timber	5%	5%
Real Estate	<u>15%</u>	<u>15%</u>
<b>TOTAL</b>	<b><u>100%</u></b>	<b><u>100%</u></b>

Over the next 20 years, the investment consultant's model projects the current asset allocation will produce compound annual returns of 7.7%, with a standard deviation (volatility of returns, or risk) of 12.7%. The recommended asset allocation is expected to produce compound annual returns of 7.9%, with a standard deviation of 12.2%. Thus, the recommended asset allocation is expected to increase the investment return of the Pension Plan while reducing the risk, or volatility, of those investment returns over this time period.

There are a number of other revisions to the Pension Investment Policy that will update its language and make its presentation more succinct.

The recommended revisions to Pension Investment Policy (236) were unanimously approved by the Investment Advisory Committee at their meeting on September 24, 2018.

### *Options*

Option 1: Approve the proposed revisions to the Pension Investment Policy (236).

Option 2: Provide staff with alternative direction.

***Attachments/References***

- 1) Proposed Pension Investment Policy (236) - blacklined
- 2) Proposed Pension Investment Policy (236) - Clean

[Proposed Pension Investment Policy 236 blacklined.pdf \(190 KB\)](#)

[Proposed Pension Investment Policy 236 clean.pdf \(130 KB\)](#)