



# City of Marietta

205 Lawrence Street  
Post Office Box 609  
Marietta, Georgia 30061

## Motion Signature

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**File Number:** 20160845

### Supplemental Pension Investment Policy Statement Approval

Motion approving the Supplemental Pension Investment Policy Statement (IPS) as forwarded by the Pension Board. Exhibit A of the revised IPS updates the plan's investment options, and establishes age appropriate target date funds as the Qualified Default Investment Alternatives (QDIA) instead of the guaranteed fixed income option. The Pension Board is authorized to periodically update Exhibit A as investment options change.

**Date** September 14, 2016

A handwritten signature in cursive script, reading 'R. Steve Tumlin, Jr.', written over a horizontal line.

R. Steve Tumlin, Jr., Mayor

A handwritten signature in cursive script, reading 'Stephanie Guy', written over a horizontal line.

Stephanie Guy, City Clerk



Legistar #: 20160845

MEMORANDUM

**TO:** Personnel & Insurance Committee Members  
**THRU:** Bill Bruton, City Manager  
**FROM:** Davy Godfrey, Director of Human Resources and Risk Management  
**DATE:** August 31, 2016  
**SUBJECT:** Supplemental Pension Investment Policy Statement Approval

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**Issue:** This is a request from the Pension Board to approve the revised Supplemental Pension Investment Policy Statement (IPS).

**Discussion:** On August 10, 2016, the Pension Board voted to accept the attached Investment Policy Statement for the 401a Supplemental Pension Plan. This update revises investment options, and also changes the Qualified Default Investment Alternative (QDIA) for all new hires from a low interest, fixed income account to a balanced target date fund based on an employee's projected retirement date. The Bogdahn Group, the Supplemental Pension Plan consultant, developed this IPS using industry best practices, current laws and regulations, and Pension Board guidance. The Pension Board will, in the future, update Exhibit A of the document as needed.

**Recommendation:** The Pension Board recommends approval of the revised Supplemental Pension IPS.

**City of Marietta  
Supplemental Pension Plan  
401(a) Defined Contribution Plan  
Adopted 08/10/2016**

**Investment Policy Statement**

**I. PURPOSE OF INVESTMENT POLICY STATEMENT**

The Pension Board of the City of Marietta (Board) of the City of Marietta 401(a) Defined Contribution Plan (Plan) has adopted this Investment Policy Statement (Policy), and directs that it apply to all Plan assets, the Plan administrator, investment managers, investment consultants and to all other fiduciaries acting on behalf of, or under the direction of the Board.

This Policy is intended to provide guidelines, limitations, and required actions on the part of the Board and service providers for selecting, managing, and monitoring the investment options (Options) made available to participants and/or beneficiaries (Participants).

This Policy is intended to provide an anchor of stability in times of rapidly changing economic, business and capital market conditions. However, the investment policies described in this statement are subject to change. Moreover, the existence of this Policy is not intended to restrict or limit the discretion, control or authority of the Board or any fiduciary to which such discretion, control, or authority has been delegated, to make decisions in the best interest of Plan Participants as circumstances may require.

Periodically, but no less often than once a year, the Board will meet to discuss the following:

- A. Adherence to this Policy.
- B. The effectiveness of Plan administration, Participant communications and other Participant services to Participant investment success including the evaluation of Participant concerns.
- C. Employee information including demographics, participation, contribution rates, and use of Options by Participants.
- D. The fit and appropriateness of this Policy with the overall Plan objectives; and any changes that are needed to the Plan Options, Plan administration, or Participant services.
- E. The reasonableness of the fees incurred by the Plan and confirm that the Plan and its Participants are receiving a fair value in exchange for the fees rendered.

In addition, the Board may discuss all items within this section for each Option, the Service Provider/Record Keeper, and Consultants. Any party may call more frequent meetings if significant concerns arise about any Option, strategy, personnel, organizational structure, or any other factors relating to the welfare of the Plan.

The minutes of the Board's deliberations shall be recorded to provide a written record of the Board's due diligence process. Minutes shall be voted on and approved at the subsequent meeting.

## II. OBJECTIVES OF THE PLAN

The Board is charged with following the Policy in all actions it takes involving the Plan and acts as the named fiduciary. The Trust is exempt from tax under Internal Revenue Code Section 401(a) and is maintained in conjunction with the Plan to hold assets for Participants for their retirement. The Plan permits all Participants to direct the investments for their individual Plan accounts among the Plan's Options. In addition, the Board, with the assistance of the Investment Consultant, will select an appropriate Qualified Default Investment Alternative (QDIA) Option for the Plan. The Board shall review the Plan's QDIA on an ongoing basis for suitability, and shall act in accordance with Department of Labor Regulations regarding QDIAs. The Plan's current QDIA is identified in EXHIBIT A. The accounts of terminated Participants, in some instances, are distributed according to the terms of the Plan.

The Participants bear the ultimate risk and responsibility for their individual Plan investment elections and investment performance over time. Although the Plan is not covered under ERISA, in order to conform with best-practice safe harbor provisions as specified in ERISA Section 404(c), the Plan shall:

- A. Provide Participants at least three Options with different risk/return profiles;
- B. Provide Participants with access to sufficient information so that the Participant can make an informed decision about the selection of Options; and
- C. Permit Participants to change Options on a daily basis.

Investment success largely depends on following well established principles of portfolio investing, including the use of well diversified portfolios intended to maximize long term returns for the level of risk chosen by each individual Participant. The Plan will offer Participants a diverse set of Options, selected pursuant to the criteria in SECTION IV of this Policy.

The objective is that each Participant will select a combination of Options that generally optimizes the Participant's overall investment portfolio consistent with their individual circumstances, goals, time horizons, risk capacity and risk tolerance. The name and description of the Options are identified in EXHIBIT A.

Proxy voting for mutual fund shares shall be passed through to Participants in accordance with the Service Provider/Record Keeper agreement or other applicable document. Proxy voting for securities held in a portfolio managed by an investment manager shall be handled by the investment manager consistent with its fiduciary responsibilities and the investment guidelines governing the account.

## III. RESPONSIBILITIES

**Participants:** Each Plan Participant is best positioned to make decisions regarding the allocation of assets among the various Options offered by the Plan in order to best achieve his/her investment and retirement goals. As a result, the amount to be invested in each option, if any, shall be determined by each Plan Participant. In the absence of an election by a Plan Participant, the Participant's balance will be invested in the appropriate QDIA selected by the Board.

Each Participant has a responsibility to pursue the education necessary to make sound investment decisions. This education may include, but is not limited to, materials provided by the Plan, service provider/record keeper, investment managers and/or the consultant. The Participants bear the risk of the investment results from the Options chosen.

**Plan Sponsor:** The Board of the City of Marietta 401(a) Defined Contribution Plan is responsible for establishing all policies governing the Plan and the selection of all professional service providers to the Plan, including, but not limited to, the following:

- A. Service Provider/Record Keeper
- B. Investment Managers / Options
- C. Investment Consultant
- D. Legal Counsel

**Service Provider/Record Keeper:** The Service Provider/Record Keeper selected by the Board is responsible for maintaining accurate and up-to-date account records for all individual Participants in the Plan. These records shall include daily valuations of each Participant's aggregate investments and each Option.

The Service Provider/Record Keeper shall also be responsible for providing each Plan Participant with access to sufficient information to select and manage their investments. The information and services provided shall include enrollment, education, exchanges, transfers, distributions, periodic statements and any other responsibilities that may be further defined in the agreement between the service provider/record keeper and City of Marietta.

**Investment Managers:** The investment managers of the Options selected by the Board shall be responsible for the selection, purchase and sale of the individual securities held in their respective portfolios. Each investment manager has a responsibility to discharge their portfolio management duties within the guidelines outlined in their fund prospectus or other governing document.

**Investment Consultant:** The investment consultant shall assist the Board in developing appropriate investment policies and guidelines for the Plan, recommending Options to be offered to Plan Participants and the ongoing monitoring and review of those Options. The investment consultant shall provide periodic reports outlining the investment performance results of each Option and any further information or services that may be outlined in the agreement between the consultant and City of Marietta.

#### **IV. INVESTMENT OPTION SELECTION & EVALUATION**

The following characteristics shall be considered in selecting and monitoring Options.

- A. **Manager tenure and corporate stability.** It is the intention of the Plan to consider and evaluate an Option's manager tenure as well as the corporate stability of the company offering the Option before including a particular investment vehicle as a Participant Option. In general, the Option's manager must have a three-year track record with the specific Option to be considered a viable, new Option by the Plan for use by Participants. Investment manager change, significant turnover to a portfolio management team or adverse developments at the fund company level of an existing Option shall warrant heightened scrutiny as defined later in this section.
- B. **Manager, style, asset and process consistency.** It is the intention of the Plan to consider and evaluate the manager, style, asset level and process consistency of current Options as well as new Options under consideration by the Plan. Any

management turnover, substantial style drift, significant assets flows or investment process change at the fund level will result in a review of an existing Option's position in the Plan.

- C. Investment costs and management fees. It is the intention of the Plan to consider and evaluate that the overall costs and ongoing management fees of current Options as well as new Options under consideration are reasonable when compared to other similar and comparable investment funds.
- D. Performance and risk measures. In addition to the qualitative criteria detailed above, it is the intention of the Plan to consider and evaluate the ongoing performance and risk profile of each Option using the following quantitative criteria (net of fees):
1. Performance over the five and ten-year trailing periods that exceeds the appropriate benchmark.
  2. Performance over the five and ten-year trailing periods that ranks in the top 50<sup>th</sup> percentile of the appropriate peer group.
  3. Sharpe ratio over the five and ten-year trailing period that ranks in the top 50<sup>th</sup> percentile of the appropriate peer group. The Sharpe ratio is defined as an investment's excess return (over the risk-free rate) divided by the standard deviation (risk) of the excess return.
  4. Positive Alpha over the five and ten-year trailing period relative to the appropriate benchmark. Alpha is a measure of risk-adjusted performance that represents the portion of an investment's historical performance that is not explained by movements in the benchmark index.

The Board will monitor the results of the Plan's Options against the criteria contained in items A through D on a quarterly basis. These quarterly reviews will evaluate each Option's success against the evaluation criteria as well as the Option's position in the overall menu of available Options. This framework is not intended to be an exhaustive set of criteria by which any Option is selected or evaluated on an ongoing basis.

The review structure contained above can be used for the evaluation of most Plan Options. However, there are several instances where Options offered to Participants may not fit into one or more portions of this framework. As such, the Board recognizes the need to adopt a flexible approach when analyzing the success of the Plan's index, savings, and target date Options. Traditional methods of benchmarking returns may not fully assess the effectiveness or fully appreciate the risks of these types of Options. While all Options will be reviewed within the context of their risk/reward profiles, different qualitative and quantitative factors may receive greater emphasis when evaluating these Options.

As part of the quarterly reporting and monitoring process, the Investment Consultant will provide an evaluation matrix that identifies Options as passing (green), failing four quarters or less (yellow), and failing for more than four quarters (red) for the performance and risk measures detailed under item D above and/or additional criteria where appropriate and applicable. The Option evaluation matrix is not intended to establish a sole, trinary decision-making process by which Options will be identified for replacement. The Option evaluation matrix is a working tool intended to document the dialogue and examination of Options by the Board on an ongoing basis. As each situation for potential replacement is unique, the length of time during which an Option is identified as failing any criteria in the evaluation matrix before replacing shall be

treated on a case-by-case basis. The Options evaluation matrix is intended to aid the Board in identifying those Options that may warrant increased monitoring before becoming subject to removal as detailed in SECTION V of this Policy.

Options that consistently fail to meet performance based objectives, or have experienced management turnover, substantial style drift, significant assets flows, investment process change at the fund level or have other qualitative issues of concern will subject the Option to “heightened scrutiny” to remain in the Plan. Heightened scrutiny may include a more detailed evaluation of the Option’s organization, investment performance, risk characteristics relative to the appropriate benchmark and peer group over a variety of trailing, rolling and annual time periods, as well as different market cycles, including up markets and down markets. The purpose of heightened scrutiny is to determine if the Option’s failure to meet organizational and/or performance objectives is reasonable, explained and/or consistent with the stated investment philosophy, process and investment objectives of that Option in the context of the existing market environment.

A current list of the Plan’s Options, style objectives and benchmarks is contained in EXHIBIT A.

## **V. INVESTMENT OPTION REMOVAL**

Within the context of quarterly reviews, the Option evaluation matrix, and Options under heightened scrutiny, the ongoing suitability of an Option in the Plan shall be questioned and will lead to removal when:

- A. Performance is unjustifiable;
- B. Risk characteristic are unacceptable;
- C. Qualitative issues of insurmountable concern exist; or
- D. Lack of confidence that an Option will be able to achieve performance and risk objectives going forward.

The Board shall have full discretion to retain or replace any Option. The ultimate decision to remove/replace an Option shall be made when the Board believes such removal/replacement is in the best interests of the Plan and its Participants. Any decision to remove an Option shall be treated on an individual basis.

## **VI. INVESTMENT OPTION MAPPING POLICY**

It shall be the general policy of the Plan to apply the following procedures when mapping Participant assets in situations of Option removal and absent participant election following notification of the removal of an Option in which they have a balance or future contribution allocation.

- A. The Plan will map Participant assets and future contribution allocations in the discontinued Option to an existing or new Option that is reasonably similar in terms of risk and return to the discontinued Option. Unless presented with clear evidence to the contrary, the Plan considers Options within the same asset class as being reasonably similar in terms of risk and return; or
- B. The Plan will map Participant assets and future contribution allocations in the discontinued Option to the appropriate Plan QDIA.

The decision to map Participants to an Option that is reasonably similar in terms of risk and return to the discontinued Option or to map participants to the QDIA shall be made on a case by

case basis as deemed in the best interest of the Plan Participants and beneficiaries under the prevailing circumstances.

In all situations the Plan shall provide Participants notification of the qualified change at least 30 days but not more than 60 days prior to the effective date of the change. The notice shall inform Participants that the notified change will occur unless instructions are received to the contrary.



**EXHIBIT A – INVESTMENT OPTIONS**

The following funds are current Options offered by the Plan to its Participants.

<b>Fund Option</b>	<b>Style Objective</b>	<b>Peer Group</b>	<b>Benchmark</b>
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**Domestic Equity Funds**

MFS Value	Large Cap Value	Large Cap Value	Russell 1000 Value
Principal S&P 500 Index	Large Cap Core	Large Cap Core	S&P 500
T. Rowe Price Growth Stock	Large Cap Growth	Large Cap Growth	Russell 1000 Growth
Fidelity Advisor Leveraged Co Stock	Mid Cap Value	Mid Cap Value	Russell Midcap Value
Principal S&P 400 Index	Mid Cap Core	Mid Cap Core	S&P 400
JP Morgan Small Cap Value	Small Cap Value	Small Cap Value	Russell 2000 Value
Principal S&P 600	Small Cap Core	Small Cap Core	S&P 600
ClearBridge Small Cap Growth	Small Cap Growth	Small Cap Growth	Russell 2000 Growth

**International / Global Equity Funds**

Harbor International	Foreign Large Blend	International Equity	MSCI EAFE
Principal Diversified International	Foreign Large Blend	International Equity	MSCI ACWI ex US

**Fixed Income / Stable Value Funds**

Dodge & Cox Income	Aggregate Bond	Broad Market Core+	Barclays Aggregate
Principal Fixed Income Guaranteed	-	-	90 Day US Treasury

**Balanced / Target Date\* Funds**

Oakmark Equity and Income	Balanced	Balanced Moderate Allocation	60% S&P 500/40% Barclays Gov/Credit
Principal LifeTime Strategic Income	Target Date	Target Today	S&P Retirement Income
Principal LifeTime 2010	Target Date	Target 2010	S&P Target 2010
Principal LifeTime 2015	Target Date	Target 2015	S&P Target 2015
Principal LifeTime 2020	Target Date	Target 2020	S&P Target 2020
Principal LifeTime 2025	Target Date	Target 2025	S&P Target 2025
Principal LifeTime 2030	Target Date	Target 2030	S&P Target 2030
Principal LifeTime 2035	Target Date	Target 2035	S&P Target 2035
Principal LifeTime 2040	Target Date	Target 2040	S&P Target 2040
Principal LifeTime 2045	Target Date	Target 2045	S&P Target 2045
Principal LifeTime 2050	Target Date	Target 2050	S&P Target 2050
Principal LifeTime 2055	Target Date	Target 2055	S&P Target 2055
Principal LifeTime 2060	Target Date	Target 2060	S&P Target 2060

\*Plan QDIA