

# STATEMENT OF INVESTMENT POLICY AND GUIDELINES

For

**The City of Franklin Employees' Pension Plan**

**Adopted March 27, 2006**

**Amended February 26, 2013**

**Amended September 19, 2014**

**Amended December 8, 2015**

## **I. Statement of Purpose**

The City of Franklin Employee Pension and Trust Investment Committee (the "Investment Committee") is charged with the responsibility of administering the City of Franklin Employees' Pension Plan (the "Plan"). The Committee shall follow this Statement of Investment Policy and Guidelines (the "Policy") as approved on the date specified below. This Policy applies to participants and beneficiaries covered under the City of Franklin Pension Plan. The policy should be reviewed periodically and may be amended at any time.

The plan was established in 1971 and subsequently amended and restated, most recently as of July 1, 2003. The Plan is intended to meet the requirements of Sections 401(a) and 501(a) of the Internal Revenue Code to the extent those provisions apply to a governmental plan. Details of the Plan are contained in the Plan Document. This Policy relates to that document. Should any conflicts arise between this Policy and the Plan Document, the Plan Document takes precedence.

### **A. Objectives**

The objective of the City Franklin Pension Plan is to preserve the actuarial soundness of the Plan in order to meet contractual benefit obligations.

### **B. Conflicts of Interest**

All entities dealing with the plan are required to disclose conflicts of interest as soon as they become apparent, either at a public meeting or in writing to the Investment Committee. Such entities shall also be required to disclose such conflicts of interest to the City of Franklin and to otherwise comply with the Ethics Code of the City of Franklin as it may be adopted and amended from time to time.

The Investment Committee will strive to maintain both the reality and the public perception that its decisions are made solely for the benefit of plan members. All entities dealing with the Plan must conduct themselves in a manner worthy of the public trust, keeping in mind that the Plan is subject to public review and evaluation.

## **C. Roles and Responsibilities**

All parties serving the Plan at the date of the original adoption of this Policy have 60 days to be in compliance with its provisions, or to notify the Board in writing as to why they cannot be in compliance.

After the adoption period, should any parties serving the Plan find that they are not in compliance with one of its provisions, they shall have 30 days to be in compliance or to notify the Board in writing as to why they cannot be in compliance. Such notice should be provided to the Plan Administrator and the Chief Investment Officer as described below. Email shall be deemed to constitute written notification for this purpose.

### **1. Investment Committee**

The Investment Committee has the responsibility of establishing and maintaining policies for all aspects of the Plan including:

- setting investment policy;
- communicating to plan participants;
- performing asset allocation for the Plan;
- selecting, evaluating and replacing investment professionals for the Plan; and
- monitoring performance of the plan to maintain its actuarial soundness.

The Investment Committee will meet as often as needed but no less than quarterly, if practicable. The Investment Committee may select other professionals to assist in its duties.

### **2. Plan Administrator**

The City of Franklin is the Plan Administrator (the “Administrator”) as described in the Plan Document. The Human Resources Director has been designated by the Investment Committee to provide day-to-day administrative services under the plan. The Administrator shall be responsible for administering the Plan in accordance with the Plan Document and applicable law.

### **3. Chief Investment Officer**

The Chief Financial Officer of the City of Franklin shall act as Chief Investment Officer (the “CIO”). The CIO shall plan, organize and administer the operations of the Plan under broad policy guidance from the Investment Committee and the Administrator. These operations include accounting and claims operation; administration of investments, attorneys, accountants, actuaries, consulting and other contracts; and select investment oversight.

### **4. Actuary**

The Board will select an actuary to perform a valuation of the plan as often as needed but no less than annually.

## **5. Investment Consultant**

The Investment Committee may engage an investment consultant. If the Investment Committee engages an investment consultant, the investment consultant will report directly to the Investment Committee. The investment consultant will give an independent perspective on the Plan, help select record keepers and investment managers, review asset allocation, and provide investment performance measurement.

The investment consultant is expected to attend meetings of the Investment Committee as needed but no less than quarterly, and to perform asset allocation studies as needed but no less than once every five years. The investment consultant will acknowledge in writing that he/she is a fiduciary of the plan relative to the services he/she provides.

The Investment Committee shall exercise an appropriate level of due diligence with respect to all aspects of the investments in the Plan: development of the asset allocation structure, selection of external investment managers, and the monitoring of investment performance.

## **6. Custodian or Trustee**

The custodian or trustee will hold all cash and securities or evidence thereof. The custodian or trustee will be responsible for maintaining records, providing fund accounting on a trade date basis, and other services as defined in its custodial agreement or the trust agreement, as applicable. Except as otherwise provided in the custodial agreement or trust agreement, the custodian or trustee may not engage in financial transactions related to the Plan that are based on written or oral instructions from any person other than the Investment Committee, the Administrator or the CIO acting on the Investment Committee's behalf. The custodian or trustee will acknowledge in writing that it is a fiduciary of the plan relative to the services it provides.

## **7. Investment Managers**

In managing assets for the Plan, the Investment Committee may engage the services of investment managers. Investment managers buy and sell securities according to guidelines established for their particular asset class. Investment managers are to acknowledge in writing that they are fiduciaries of the plan relative to the services they provide. Managers shall act with skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.

## **II. Plan Components**

The Investment Committee has three tasks to accomplish in managing the Plan's investments: first, to adopt a realistic actuarial rate of return for the Plan; second, to construct a portfolio that will have the potential of earning the actuarial rate of return with a high probability of success, and with as little risk as possible; and third, to recommend the level of contributions needed to keep the Plan financially sound.

## **A. Plan Characteristics**

In constructing portfolios for the Plan, the Investment Committee should consider the following characteristics.

### **1. Liquidity**

The Plan should have liquidity to meet its cash flow needs. Individual investments may have limited liquidity so long as they do not interfere with the operation of the Plan as a whole.

### **2. Diversification**

Assets should be diversified among asset categories, sectors and geographic areas to minimize risk.

### **3. Time Horizon**

The time horizon of the Plan is perpetual. In projecting returns for the Plan, the Investment Committee may consider information from recent history (20 years), long-term history (about 70 years) some combination of the two, or projected returns. The Investment Committee must judge what data gives the best estimate for future returns by applying evidence from the past to current circumstances.

### **4. Risk Tolerance**

The primary investment emphasis of the Plan is to meet the actuarial rate of return. A secondary goal is to preserve capital and achieve consistency of results. The Investment Committee should strive to attain these secondary goals while still meeting the actuarial rate of return. The Investment Committee recognizes that risk is present in all investments. The assumption of risk is needed to achieve satisfactory long-term results. It is the responsibility of the Investment Committee to manage the tradeoff between risk and return given the projected needs of the Plan, always attempting to minimize risk of the overall portfolio for any given level of return.

### **5. Asset Allocation**

The Investment Committee shall ordinarily conduct an asset allocation study once every five years or otherwise at such times as circumstances change and the Investment Committee deems it appropriate to conduct another asset allocation study. The asset allocation study requires a projection of cash flows, which are dependent on contributions made into the plan and disbursements made from the plan in the form of benefits and expenses. The purpose of the asset allocation study is to understand the tradeoff between risk and return, and to aid in the construction of a portfolio that has a high probability of earning the actuarial rate of return but achieves this goal with a minimum of volatility.

## **6. Rebalancing**

Once policy targets for asset allocation are set in the asset allocation study, the Investment Committee should ordinarily instruct the CIO to rebalance in an effort to keep asset allocation as close to the policy target as possible while at the same time minimizing transactions costs. If asset allocation deviates from policy targets by more than five percentage points, the Investment Committee should authorize a lump-sum transfer to restore fund allocations to the original policy limits. In applying the rebalancing policy, the CIO should also be mindful of minimizing transactions costs.

### **B. Investment Alternatives**

Investment alternatives are divided into four broad categories: fixed income, domestic equity, international equity, and alternative investments. Fixed income investments shall be used primarily to provide stability of principal. Domestic equity and international equity may be added to enhance return. Alternative investments may be added to enhance return, and to provide diversification that will reduce volatility as well.

### **C. Performance Standards**

The goal of the Plan is to earn a rate of return equal to or greater than the actuarial assumption while minimizing volatility over a market cycle. The goal of each individual manager is to exceed an assigned benchmark net of fees, and to perform in the upper half of a universe of managers in a similar style, over a market cycle. Managers may be considered to be in violation of these standards before completion of a market cycle if, in the judgment of the Investment Committee, they are unlikely to meet the standards when the market cycle is completed. Guidelines for each of the four asset classes are outlined in the next section.

## **III. Manager Guidelines: Asset Classes**

The Investment Committee may select managers in a variety of asset classes, which can be generally grouped into four categories: domestic fixed income, domestic equity, international equity, and alternative assets. Guidelines unique to these general categories are provided in this section. General guidelines that apply to all managers are contained in the following section.

The Investment Committee is aware that mutual funds and other commingled vehicles have separate guidelines and/or prospectuses. When employing such vehicles, the Investment Committee acknowledges that those separate guidelines and/or prospectuses shall supersede the guidelines that follow.

## **A. Fixed Income Managers**

### **1. Investment Objective**

Active bond managers are expected to beat a benchmark appropriate to their style, and to perform in the top half of a universe of similar portfolios. The benchmark used for comparison should be assigned to the manager as part of the manager selection process.

### **2. Permissible Securities**

Fixed income managers may invest in U.S. Government and agency bonds, U.S. domestic corporate and taxable municipal bonds, asset-backed and mortgage-backed securities, convertible bonds and Reg 144a securities that have registration rights. U.S. domestic corporate bonds must be issued by an entity incorporated in the United States.

Securities must be rated Baa3/P-3 or better by Moody's, BBB-/A-3 or better by Standard & Poor's, and BBB-/F-3 or better by Fitch. Should an issue receive a split rating, the lower rating will apply. Should an issue already in the portfolio fall below the prescribed level, the Manager has 10 business days to sell the bond or to explain to the Investment Committee why the bond is being held.

### **3. Non-Permissible Securities**

All securities not expressly permitted under the previous section are prohibited unless permission is given in writing by the Investment Committee, or by the Administrator or the CIO acting on behalf of the Investment Committee.

### **4. Non-permissible Transactions**

Fixed income managers are prohibited from purchasing securities on margin or selling short.

### **5. Cash Balances**

Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion, keeping in mind that the benchmark will be applied to the manager's total portfolio and not just to the non-cash portion. Managers should inform the Investment Committee within 10 business days if cash balances exceed 10%. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills and money market fund.

### **6. Marketability**

Fixed income securities should be readily marketable. Managers are not to invest in private placements without the express written authorization from the Investment Committee.

## **7. Diversification**

Fixed income obligations of any one issuer, other than securities subject to the guarantee of the United States government or any of its agencies, should represent no more than 5% of the aggregate fair market value of a manager's portfolio. Corporate bonds are limited to no more than 60% of the aggregate fair market value of a manager's portfolio.

### **B. Domestic Equity Managers**

#### **1. Investment Objective.**

Active equity managers are expected to outperform a benchmark appropriate to their style (value, core or growth) and market capitalization (large, mid and small). In addition, active equity managers should be ranked in the upper half of a universe of similar portfolios. Passive equity managers are expected to track their appropriate benchmark.

#### **2. Permissible Securities**

Equity managers may invest in domestic common stocks, domestic convertible securities, and ADRs for listed securities of foreign corporations. Listed securities are those traded on the NYSE, AMEX and NASDAQ exchanges. Any investment in convertible debentures must carry an investment grade rating of "A" or better.

#### **3. Non-permissible Securities**

All securities not expressly permitted under the previous section are prohibited unless permission is given in writing by the Investment Committee, or by the Administrator or the CIO acting on behalf of the Investment Committee.

#### **4. Non-permissible Transactions**

Except with the written consent of the Investment Committee, equity managers may not purchase securities on margin or sell short.

#### **5. Cash Balances**

Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion, keeping in mind that the benchmark will be applied to the manager's total portfolio and not just to the non-cash portion. Managers should inform the Investment Committee within 10 business days if cash balances exceed 10%. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills and money market fund.

## **6. Marketability.**

Securities should be marketable. It is understood that small- and mid-capitalization stocks offer less liquidity than more widely held securities.

## **7. Diversification**

Equity investments by a Manager in any single corporation shall be limited to no more than 5% of the Manager's total portfolio based on the fair market value of the portfolio at the time of purchase, and no more than 10% of the Manager's total portfolio at any quarterly valuation. The portfolio should also be appropriately diversified by industry sector. The manager should inform the Investment Committee in writing of any violation within 10 business days of its occurrence.

## **8. Income**

There are no minimum yield or dividend requirements.

## **C. International Equity Managers**

International equity is designed to add diversification to the Plan. This segment of the portfolios will be committed exclusively to foreign securities. There are different risks associated with this segment due to factors such as political and currency risk.

### **1. Investment Objective**

Active international equity managers are expected to outperform a benchmark appropriate to their style. In addition, active international equity managers should be ranked in the upper two quartiles of a universe of similar portfolios.

### **2. Permissible Securities**

International equity managers must invest in securities of companies not domiciled in the United States, including common stocks traded on any major stock exchange or ADRs traded in the United States, global depository receipts (GDRs) and preferred stocks traded on any major stock exchange. International equities include equities of both developed countries and emerging markets. International managers may hold no more than 20% of their portfolio in emerging markets unless they are hired expressly for an emerging markets mandate.

### **3. Non-permissible Securities**

All securities not expressly permitted under the previous section are prohibited unless permission is given in writing by the Investment Committee, or by the Administrator or the CIO acting on behalf of the Investment Committee.



#### **4. Non-permissible Transactions**

Except with the written consent of the Investment Committee, equity managers may not purchase securities on margin or sell short.

#### **5. Cash Balances**

Managers are expected to remain fully invested. However, the decision to maintain cash balances is left to the manager's discretion, keeping in mind that the benchmark will be applied to the manager's total portfolio and not just to the non-cash portion. Managers should inform the Investment Committee within 10 business days if cash balances exceed 10%. Cash and equivalents may be invested in commercial paper rated A1 or P1, repurchase agreements, U.S. Treasury Bills and money market fund.

#### **6. Marketability**

Securities should be marketable. It is understood that international equity securities, especially in emerging markets, offer less liquidity than more widely held securities.

#### **7. Diversification**

Equity investments by a Manager in any single corporation shall be limited to no more than 5% of the manager's total portfolio based on the fair market value of the portfolio at the time of purchase, and no more than 10% at any quarterly valuation. The portfolio should also be appropriately diversified by industry sector. The Manager should inform the Investment Committee in writing of any violation within 10 business days.

#### **8. Income**

There are no minimum yield or dividend requirements.

#### **D. Alternative Investment.**

The Investment Committee may consider allocating a portion of the portfolio to alternative investments including timber, emerging market equity, real estate, private equity, international bonds, venture capital, commingled funds and collective trusts, and hedge funds. Alternative investment should be considered with the goal of increasing the return of the portfolio without unduly increasing risk, or lowering risk of the overall portfolio without lowering return.

Collective Trusts and Commingled Funds may consist of assets of mutual funds, partnerships, exempt pension and profit sharing trusts and individual retirement accounts, custodial accounts, retirement income accounts, governmental plans and tax-exempt trusts under the Internal Revenue Code of 1986 and Rev. Rul. 81-100, as modified by Rev. Rules. 2004-67, 2008-40 and 2011-1, that are pooled, solely for investment purposes, in a common or group trust fund. The assets so invested are subject to all the provisions of the group trust instruments establishing and governing such trust or trusts. Those instruments of group trusts, including any subsequent

amendments, are incorporated by reference and made a part of the governing document (with respect to the Pension System, the plan document) or may be incorporated by specific reference in any subscription, adoption, or other agreement investing in such group trust.

Should the Investment Committee allocate part of the portfolio to an alternative asset class, separate investment guidelines specific to that asset class shall be adopted if investment is made outside a commingled vehicle. If investment is made within a commingled vehicle, the Investment Committee recognizes that the policies of the fund supersede these policy and guidelines. Due care should be exercised to ascertain whether the policies of any such fund are in line with the goals and objectives of the Investment Committee.

#### **IV. Manager Guidelines: General**

Investment managers may not act upon written or oral instructions from any person other than the Investment Committee, the Administrator, or the CIO acting on behalf of the Investment Committee or the Administrator.

##### **A. Discretionary Authority-**

Managers are given full discretion to act in accordance with the Statement of Investment Policy and Guidelines. In placing portfolio transaction orders on behalf of the Plan, each manager shall obtain execution of orders through responsible broker/dealers at the most favorable prices and at competitive commission rates, taking into consideration the efficiency of execution of the transaction.

##### **B. Reporting**

1. Within 14 days a Manager must inform the Investment Committee of changes in organizational structure, ownership or key personnel. Also a Manager must inform the Investment Committee of material litigation brought by a client or former client relating to investment advisory services, or any enforcement proceeding by a regulatory agency that would have a material effect on the Manager, within 14 days after the Manager has been notified of the litigation or the enforcement proceeding.

2. On a monthly basis each Manager is to submit a portfolio statement. The monthly statement should include market and book values for all security holdings and performance results compared with the designated benchmark.

3. On a quarterly basis each Manager is to submit a brief letter or report on the status of and outlook for his or her portfolio. The report should address the following:

- economic investment and outlook;
- investment strategy (short- and intermediate-term)
- explanation of any high concentrations in any one sector or security;

- a list of portfolio holdings or a summary of the largest holdings;
- commissions on trades upon request;
- market and book values for all security holding;
- performance results compared with designated benchmarks;
- brokerage commission reports (if any);
- turnover ratio;
- derivative use;
- quality ratings with average quality (for fixed income portfolios).

4. On an annual basis each Manager is to submit an annual proxy voting report and the filing of Form ADV with the Securities and Exchange Commission. Also on an annual basis, each Manager is expected to meet with the Investment Committee to discuss management of the portfolio. The Investment Committee must receive a report covering the topics listed under No. 3 above five days before the meeting. Managers may be asked to meet with the Investment Committee more frequently if special circumstances require it.

### **C. Proxy Voting**

The Investment Committee requires that Investment Managers exercise authority with regard to proxy voting, acting solely in the interest of and for the exclusive purpose of providing benefits to participants and beneficiaries, and always acting in the best interests of participants and beneficiaries. With regard to corporate governance, proxy votes should be against proposals to limit or eliminate liability for violation of duty of care and to indemnify directors in instances of gross negligence.

The annual report on proxy voting covered under the previous section shall include:

- summation of all votes cast;
- affirmation that all stock holdings with votes due were voted;
- description of proposed changes in proxy voting policies;
- confirmation that all votes cast were consistent with policy;
- explanation of any violation of the previous requirements.

### **D. Cost Management**

#### **1. Turnover**

The Investment Committee acknowledges that in the course of a year, investment conditions and opportunities will require managers to buy and sell securities on the Investment Committee's behalf. While the Investment Committee does not wish to inhibit the normal transactions executed by the advisors, it does wish to be made aware of the need for any high levels of turnover to avoid churning the portfolio. The following reporting requirements are therefore for control purposes and are not necessarily intended to limit portfolio turnover to the stated limits.

- Turnover is defined as the lesser of total purchases or sales. Convertible bonds are considered equity surrogates and are subject to the terms of this policy regarding

common stocks. Preferred stocks are considered perpetual bond surrogates and are subject to the terms of this policy regarding corporate bonds.

- Equity turnover. Within five business days of the time in any calendar quarter in which the cumulative equity turnover during the quarter exceeds 30%, or within any calendar year in which the cumulative equity turnover exceeds 100%, the manager must submit a report to the CIO stating the reason for the turnover as well as a list of any brokerage firms whose fees during the quarter or year exceeded \$10,000.
- Fixed income turnover. Within five business days of the time in any calendar quarter in which the cumulative fixed income turnover during the quarter exceeds 100% or within any calendar year in which the cumulative fixed income turnover exceeds 200%, the manager must submit a report stating the reason for the turnover as well as a list of any brokerage firms handling more than 20% of the subject trades. U.S. government securities, used as collateral as part of the repurchase agreements, are exempt from this requirement.
- Turnover will be considered as one factor in the money manager selection and retention process.

## **2. Broker Relations**

The investment manager is free to execute trades whenever it is in the best interests of the Plan, and will have the discretion to execute transactions with brokerage firms of his or her choosing.

- The selection of a broker should be based on the quality of executions. Factors affecting the quality of executions include the financial health of the brokerage firm, the business integrity of the brokerage firm, commission costs and overall efficiency.
- Commission dollars are a Plan asset and should not be used for purposes other than those that directly benefit Plan participants. The investment manager is required to provide reports and descriptions of all soft dollar arrangements involving the use of commission dollars to acquire resources of any type.

## **E. Disclosures**

Investment consultants and investment managers, as applicable, shall provide such disclosures as the Investment Committee shall require including the following:

- Relationships with investment managers that the investment consultant recommends, considers for recommendation, or otherwise mentions to the Investment Committee or Administrator.
- Payments received from investment managers that the investment consultant recommends, considers for recommendation, or otherwise mentions to the Investment Committee or Administrator.

- Policies or procedures to address conflicts of interest or to prevent related party payments or relationships from being a factor when the investment consultant provides advice.
- To the extent the investment consultant's or investment manager's fees are paid using brokerage commissions, an indication of whether the investment consultant or investment manager monitors the amount of commissions paid and will alert the Investment Committee when such fees have been paid in full.
- Steps the investment manager will take to ensure, to the greatest extent practicable, that the Plan receives best execution for any securities trades.
- Arrangements with broker-dealers under which the investment manager or a related company will benefit if money managers place trades for clients with such broker-dealers.
- The percentage of the investment consultant's clients that utilize investment managers, investment funds, brokerage services, or other service providers from whom the investment consultant receives fees.

**VI. Execution of Investment Policy**

IN WITNESS WHEREOF, this document has been approved and executed by the Investment Committee on this

\_\_\_\_\_ day of \_\_\_\_\_ 2006.

Investment Committee  
City of Franklin Pension Plan

By: \_\_\_\_\_ Date: \_\_\_\_\_

Investment Committee Chairman

## Addendum

Below is the Plan's current asset allocation, the target percentage of total assets to be invested in each asset category, the allowable range around this target, and the benchmark to be used in judging the performance of any strategy employed to manage assets in that category. Should the allocation fall outside the range, the Committee is encouraged to rebalance to the target on a quarterly basis. Included are the current managers to whom each allocation is entrusted, with the assigned benchmark:

<b>ASSET SUBCLASS</b>	<b>TARGET</b>	<b>RANGE, +/-</b>	<b>BENCHMARK</b>
Large Cap Growth Domestic Equity	10%	2%	R1000G
Large Cap Value Domestic Equity	20%	4%	R1000V
Small Cap Domestic Equity	13%	2%	R2500
International EAFE Equity	10%	2%	MSCI EAFE
International EM Equity	10%	2%	MSCI EM
Private Equity	2%	2%	R2500
Real Estate	5%	2%	NCREIF ODCE
Timber	5%	2%	NCREIF Tim
Fixed Income	10%	2%	BC Aggregate
Fixed Income	15%	5%	BC Intermediate G/C

Such benchmarks are subject to change, from time to time, in the discretion of the Investment Committee.

Managers selected in each asset class generally will be expected to exceed their assigned benchmark net of fees, and to perform in the upper half of managers in a like style over a market cycle. A market cycle is assumed for convenience to be 3-5 years in duration, but actual market cycles may be longer or shorter. A measurement period should ideally include both up and down markets to fully judge the success of a manager's strategy.

If at any time the Investment Committee determines that a manager is unlikely to meet these expectations, action may be taken to terminate that manager prior to the completion of a market cycle.

The Investment Committee is still considering whether to fund the timber allocation. Until such time as that decision is made, the portion of the portfolio set aside for the timber allocation shall be invested in fixed income.

This Addendum may be revised from time to time at the discretion of the Investment Committee.