



ADMINISTRATIVE REGULATION

Office of the City Manager

Number	AR 314
Sections	1 - 6
Effective Date	June 2012
Responsible Department	City Treasurer
Review Date	June 2016

SUBJECT: *Investment Policy Statement – Deferred Comp Plan*

- 1. Purpose:** The Investment Policy Statement (“IPS”) establishes the policies and objectives for the City of Huntington Beach Deferred Compensation Plan. It outlines and prescribes a prudent and acceptable investment philosophy and sets out the investment management procedures that are designed to assist the Plan fiduciary, the City of Huntington Beach (the “City”) and the Deferred Compensation Plan Committee (the “Committee”) appointed by the City in the discharge of the fiduciary duties.
- 2. Authority:** Section 401 of the Huntington Beach City Charter.
- 3. Application:** To aid the Deferred Compensation Committee in prudent investment decision-making and provide a basis for evaluating investment performance on a periodic basis.
- 4. Purpose of the Plan:** The purpose of the Investment Policy Statement (“IPS”) is to establish a set of non-binding guidelines for the prudent investment decision-making process and to provide a basis for evaluating investment performance on a periodic basis by the Committee. These guidelines do not constitute a contract or a statement of mandatory requirements, but are only an explanation of the general principles and guidelines currently being applied for investment option selection and retention. Furthermore, these guidelines are not the only factors that may be considered. The goal of the Plan is to provide a framework for participants to establish a savings and investment program for their retirement. While Plan participants are ultimately responsible for their own investment decisions, the Committee will endeavor to provide a broad range of investment options, allowing participants to invest in accordance with their own time horizons, risk tolerance and retirement goals.
- 5. Policy:**
 - 5.1. Investment Choices**

The Plan intends to comply with the California Constitution, Government Code Section 53213.5 and Section 404c of ERISA by providing a broad range of investment alternatives. These alternatives shall be sufficient to provide participants and beneficiaries with a reasonable opportunity to:

 - Materially affect the potential return on amounts in their accounts with respect to which they are permitted to exercise control and the degree of risk to which such amounts are subject.

- Choose from a minimum of three core investment alternatives, each of which:
 - Is diversified
 - Has materially different risk and return characteristics
 - Will in the aggregate enable participants and beneficiaries to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for participants and beneficiaries
 - When combined with investments in the other alternatives, tends to minimize through diversification the overall risk of a participant's or beneficiary's portfolio
 - Will diversify the investment of the accounts of participants and beneficiaries so as to minimize the risk of large losses, taking into account the nature of the Plan and then size of participants' or beneficiaries' accounts.

The Committee will endeavor to ensure that there will be at least one investment choice available to participants in each asset class (cash, fixed income, domestic equity and foreign equity), unless under the circumstances the Committee determines that it is not prudent to do so. All investment choices will be publicly available mutual funds or Institutional Trust or similar vehicles. All investments being offered will fluctuate in value with market conditions and when redeemed, may be worth more or less than the amount originally investment. Each of the chosen investment options is designed to follow a specific stated investment objective.

5.2. Performance Measurement Standards

The Committee shall evaluate all Plan investments against appropriate peer groups and index benchmarks. The Committee intends to use independent discretion and judgment in determining whether any investments are prudent and suitable for the Plan and its participants and beneficiaries.

Each Plan investment option will be reviewed periodically using Quantitative and Qualitative Criteria.

Quantitative Criteria – Quantitative factors used in monitoring the Plan's investment options may include, but are not limited to the following:

- Absolute and relative returns
- Risk-adjusted efficiency ratios
- Style consistency
- Expenses

Each investment option shall be evaluated and compared to a widely accepted industry benchmark and a relevant peer group. Any investment option that is passively managed shall be evaluated and compared to their respective benchmark for tracking error and expenses. Any investment option lacking a 3-Year performance record will not be evaluated.

Qualitative Criteria – In addition to the above quantitative criteria, qualitative factors may be monitored to determine the potential exposure to risk that may make an investment option unsuitable as a retirement plan investment option.

The Committee shall have the authority to establish, modify, amend or adjust acceptable performance measurement standards by which each investment option is to be evaluated.

6. Responsibilities:

6.1. The Investment Policy Statement will be utilized by the members of the Deferred Compensation Committee.

6.2. The following parties associated with the Plan shall discharge their respective responsibilities in accordance with all applicable fiduciary standards of Article XVI, §17 of the California Constitution, Government Code Section 53213.5 and Section 404(a) of ERISA as follows: (1) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plan; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims; (3) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of the State of California Constitution, Government Code and ERISA.

6.3. Deferred Compensation Plan Committee: The members of the Committee have been appointed by the City Council to act as the “Investment Fiduciary”, and include the following members by title:

- City Treasurer
- Director of Finance
- Human Resources Director

The Committee, as the primary Investment Fiduciary, is responsible for investment and management of Plan Assets, and the selection of services related to those functions. The Committee shall be responsible for the Plan level investment selection process, as set forth in this Investment Policy Statement, but it not responsible for the individual fund performance and does not guarantee positive investment results.

6.4. Trustee: The Trustee of the Plan is a nondiscretionary or “directed” Trustee and is charged with the responsibility of safekeeping the securities, collection and disbursement of the Plan assets, and periodic accounting statements.

6.5. Record Keeper: The Record Keeper’s responsibilities include administrative functions such as: maintaining participant records, administering participant directions, reporting to the plan sponsor, reporting to participants, and allocating contributions, as more fully described in the Services Agreement with the Record Keeper.

- 6.6. Investment Consultant: The Investment Consultant is a fiduciary of the Plan charged with the responsibility of advising the Committee on investment policy, advising on the selection of investment managers, and providing performance analysis and monitoring services. The Investment Consultant shall provide assistance to the Committee for the Plan level investment selection process, as set forth in this Investment Policy Statement, but is not responsible for the individual fund performance and does not guarantee investment results.

7. Procedures:

- 7.1 Investment Option Removal Procedure: The Committee shall maintain a "Watch List" for investment options that are not meeting the qualitative and quantitative criteria used. An investment option will be placed on the "Watch List" when the Committee determines that the option selected for the Plan fails to meet the criteria set forth in the performance measurement standards for a period of time to be determined by the Committee. The Committee may also remove an investment option for any reason it deems necessary.

Final selection, replacement and/or removal of an investment option from the line-up shall be completed only after conducting a thorough review of the identified investment option.

If the Committee decides that an investment option should be eliminated and replaced with an appropriate alternative option, the following principles are among those that may be applied:

- The costs and fees of replacing an investment option should be identified and evaluated.
- Deleting an investment option or replacing it will not involve a prohibited transaction (e.g., there will be no conflict of interest).

Should an investment option replacement or elimination be necessary, the Committee intends to satisfy the requirements for a qualified change as defined in ERISA Section 404(c)(4) by mapping the assets from the option replaced or eliminated to an alternative with reasonably similar characteristics, when available, and by mapping only the accounts of those participants who do not provide instructions contrary to the mapping instructions before the effective date.

Should there be a blackout period, as defined in ERISA Section 101(i)(7)(A), resulting from the replacement or elimination of an option, a provider (vendor) change, or for any other reason, the Committee intends to satisfy the requirements for authorizing and implementing such blackout period in order to qualify for the relief from fiduciary liability provided under ERISA Section 404(c)(1)(B).

- 7.2 Committee Review of Investment Performance Reports: Upon receipt of the Investment Performance Report (“Report”) by the Committee, copies will be provided to each of the Committee members to review and comment. While it is anticipated that the Committee will meet on a regular basis to discuss the Report, the Committee members may alternatively confer through individual conversations, conference calls, and other forums.
- 7.3 Monitoring Plan Administrative Fees: Costs of record-keeping Plan investments and (where applicable) the proper use of investment-generated fees (and related revenue) to offset Plan record-keeping costs, will be reviewed on a periodic basis.

The fiduciaries of the Plan shall monitor the fees charged to the Plan and the participants, in accordance with all applicable fiduciary standards. This accounting and monitoring of fees shall be done at least annually, and will generally commence with a request for all fee disclosure from the retirement plan vendor. Disclosures provided will be reviewed and benchmarked by the Committee. A third party consultant may provide assistance with the fee disclosure review and benchmarking process. If such disclosure cannot be obtained from the vendor, the Committee may request that a third party consultant research and provide the most accurate disclosure of fees, benchmarked against other vendors for same services.

In the event fees are determined to be above average or not deemed reasonable for the services provided, the Committee shall attempt to negotiate with the Plan’s current service provider or evaluate alternate vendors.

- 7.4 Monitoring of Participant Investment Behavior: The Committee will analyze the use of the investment options by the Participants at least annually. Based on their findings, the Committee will determine what, if any, changes to the Plan’s investments or services is appropriate.
- 7.5 Proxy Voting: The Investment Fiduciary will vote proxies for shares/units held in the Funds based on its review of voting proposals and will vote in the best interest of participants and beneficiaries to maximize Fund value. The Investment Fiduciary will generally vote against any of the following proposals that may result in:
- An increase in Fund expenses and charges.
 - An increased risk to Fund holders.
 - A change in investment style or asset allocation inconsistent with current Fund objectives and style classifications.

The Investment Fiduciary shall retain appropriate documentation of its proxy voting to maintain a record for a specified period.

- 7.6 Review and Revisions: Because of the dynamic nature of the economic environment, developments in financial theories and advances in technology, and changes in applicable laws and regulations, these guidelines, as well as the investment options, will be examined both formally and informally on a periodic basis. As such, the Committee reserves the right to amend the IPS at any time it deems necessary, or to comply with changes in federal law. It is also anticipated that the investment options, their benchmarks and descriptions, may be changed from time to time.



Fred A. Wilson, City Manager

APPROVED AS TO FORM

By: _____



Michael Gates, City Attorney

2/18/2015