



# **INVESTMENT POLICY STATEMENT**

**City of Cocoa**

**401(a) Defined Contribution and  
457(b) Deferred Compensation Retirement Plans**



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## I. Purpose of the Investment Policy Statement

This Investment Policy Statement establishes the policies and guidelines for the City of Cocoa 401(a) Defined Contribution and 457(b) Deferred Compensation Plans (the “Plans”) and is intended to assist the Retirement Plan Committee (the “Committee”) in effectively selecting, monitoring and evaluating investment alternatives made available to participants under the Plan. It outlines and prescribes a prudent and acceptable investment philosophy and sets out the investment management procedures.

## II. Purpose of the Plan

The Plan was established to provide a retirement savings program for eligible employees of the City of Cocoa (the “Plan Sponsor”). The Plan is maintained for the exclusive purpose of benefiting the Plan participants and their beneficiaries. The Plan intends to operate in accordance with all applicable state and federal laws and regulations.

The goal of the Plan is to provide a framework for eligible employees of the Plan Sponsor to establish a savings and investment program for their retirement. While Plan participants are ultimately responsible for their own investment decisions, the Plan Sponsor, in conjunction with SageView Advisory Group, (the “Investment Consultant”), will endeavor to provide an appropriate range of investment alternatives, allowing each individual participant to invest in accordance with his or her own time horizons, risk tolerance, and retirement goals.

In evaluating the investment alternatives for the Plan, the Plan Sponsor will take into account all Plan demographics.

The Plan is specifically intended to:

- Promote retirement savings while encouraging a high overall participation rate and consistent saving habits
- Provide Plan participants with a wide and suitable range of asset categories and investment alternatives that are intended to help participants meet their retirement goals and investment objectives
- Attract and retain outstanding employees
- Obtain Plan investment alternatives at reasonable costs

## III. Statement of Responsibilities

The following parties associated with the Plan, appointed by the Plan Sponsor, shall discharge their respective responsibilities in accordance with all applicable fiduciary standards as follows: (1) in the sole interest of the Plan participants and beneficiaries; (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.

- A. Retirement Plan Committee: The members of the Retirement Plan Committee (“the Committee”) are Plan fiduciaries and supervise the investments available to employees participating in the Plan, and make decisions, based on the recommendations of the



Investment Consultant, concerning investment alternatives available under the Plans. In adopting this Investment Policy Statement, it is the intention of the Committee that the oversight of the investment portion of the Plan will be the responsibility of the Committee. The Committee, along with the Investment Consultant, shall be responsible 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 positive investment results.

- B. Trustee: The Trustee of the Plan is charged with safekeeping the securities as well as collecting and disbursing the Plan assets and periodic accounting statements.
- C. Recordkeeper: The Recordkeeper has responsibilities that include, but are not limited to, the following: maintaining participant records, administering participant directions, reporting to the Plan Sponsor, reporting to participants, allocating contributions, administering loans, and preparing the required regulatory documents.
- D. Investment Consultant: The Investment Consultant, SageView Advisory Group, is charged with the responsibility of advising the Committee on investment policy, advising on the selection of investment alternatives, providing performance analysis and monitoring services, and educating the Committee on economic and investment trends that may impact the performance of the selected and available investment alternatives. The Investment Consultant, along with the Committee, shall be responsible 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.

## **IV. Investment Choices**

The Plan intends to provide a broad range of investment alternatives. This includes having, at a minimum, three diversified investment alternatives that are sufficient in permitting the participants to materially affect the potential return and degree of risk on their accounts, and to minimize the risk of large losses. Diversification, however, does not ensure a profit or protect against loss in a declining market.

All investment choices will be publicly available mutual funds, institutional trusts, 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 invested. The chosen investment alternatives were selected on the basis of their compatibility with Plan participants' needs and regulatory recommendations. Each of the chosen investment alternatives is designed to follow a specific stated investment objective.

### **A. Qualified Default Investment Alternative (QDIA)**

Although the Committee intends that participants will direct the investment of their assets held under the Plan, there may be circumstances under which participants do not provide direction regarding the investment of their individual accounts. In such instances, participant accounts will be invested in the Plan's default investment alternative. The Committee's intention is for the Plan to comply with the Pension Protection Act of 2006 by offering a default investment alternative that complies with all of the conditions required of a QDIA investment alternative.



The Committee may elect to utilize a multi-asset class investment alternative, such as target-date funds, as the QDIA. Periodically, as participant demographics or market conditions require, the Committee shall review and document the process for monitoring and selecting the QDIA. The specific target date portfolio for a participant or beneficiary who fails to make an investment election will be based on the participant or beneficiary who fails to make an investment election will be based on the participant's or beneficiary's date of birth and an assumed normal retirement date of age 65.

## V. Selection of Investment Alternatives

The Investment Consultant takes a two-tiered approach to investment alternative selection. Quantitative and qualitative screens are used as follows:

*Quantitative Screening (including but not limited to):*

- Investment track record
- Investment risk
- Investment risk/return
- Investment style analysis
- Performance consistency
- Investment cost
- Turnover ratio

*Qualitative Screening (Investments that pass the quantitative screens will be reviewed for characteristics that include but are not limited to):*

- Investment-style variations
- Portfolio concentration
- Asset size and growth

Interviews with portfolio managers and/or analysts will also be conducted if deemed necessary.

Selected alternatives will be reviewed by the Investment Consultant to ensure that there are no additional factors that would make them unsuitable for inclusion in the Plan. Each alternative will also be examined to ensure that it appropriately complements the overall diversification and risk and return parameters of the entire Plan investment lineup.

In addition to diversification and risk tolerance considerations, investment expenses will be considered in the selection of investment alternatives. The Committee will regularly review all costs associated with the management of the Plan's investment program. These costs include the following:

- Expense ratios of each investment alternative against the appropriate peer group
- Trustee and custodial fees for holding assets, collecting income and paying disbursements



- Plan administrative fees, including record keeping fees and other fees associated with services the Plan receives, such as compliance testing fees, audit fees, fees for communication services, etc.

## VI. Evaluation Methodology

The Committee anticipates using the following criteria in selecting and monitoring Plan investment alternatives. Each Plan investment alternative should be evaluated on an ongoing basis using several measures that quantify the expenses, returns and risk-adjusted performance of each investment alternative within its peer group.

Each Plan investment alternative should be reviewed at least annually against its peer group and benchmark index to assess the performance and quality of each offering. The list of criteria that may be used for evaluation is included as Appendix B of this document and may be updated by the Committee, as necessary.

As noted in Appendix A, whenever possible, each investment alternative is benchmarked to a specific market index, and performance is evaluated and compared to a relevant peer group using Morningstar category classifications. Each criterion for an investment alternative is given a peer group ranking, shown as a percentage. As an example, a criterion ranking of 10% indicates an investment alternative is in the top 10% of its peer group for said criterion. The rankings for all criteria are then weighted and averaged to give an investment alternative its average ranking score. The lower the average ranking score, the better. In general, an investment alternative with an average ranking score of 25% would be more attractive than a comparable investment alternative with a ranking score of 50%. An overall ranking score is used to indicate where an investment alternative places in relation to the scores of the other investment alternatives in its category. Generally, investment alternatives are divided into categories of deciles and quartiles.

Peer group rankings generally require a three-year history to ensure an accurate evaluation of the investment alternative. Any investment alternative with fewer than three years of history will generally not be evaluated using this method. In the event there is a sufficiently similar investment alternative, the Committee may elect to use its history for evaluation purposes. Sufficiently similar investment alternatives may include:

- Alternate share classes of the same product.
- Other products, such as collective investment trusts (CITs), separate accounts or recordkeeper sub-advised investment alternatives, that are managed by the same portfolio management team according to a substantially similar investment strategy.



In addition to the quantitative methodology described above, many qualitative criteria and possible warning signs are monitored in order to highlight an investment alternative's potential exposure to risk that may make it unsuitable as a retirement Plan investment option. The warning signs may include (but are not limited to):

- Above-average operating expenses
- Above-average style drift (as determined by returns-based and holdings-based analyses)
- High degrees of portfolio concentration among individual holdings
- High degrees of portfolio concentration among economic sectors
- Above-average performance volatility
- Above-average portfolio turnover
- Below-average Alpha
- Below-average manager tenure and/or above-average turnover
- Rapid growth in assets
- Significantly positive or negative cash flows
- Unusual levels of corporate scrutiny; poor public perception
- For bond portfolios, very low average credit quality relative to peers
- For bond portfolios, significantly above- or below-average portfolio durations
- Recent changes to or concerns with the firm structure / ownership
- Recent changes to or concerns with the corporate management team structure

#### **A. Other Investment Evaluation Criteria**

The Committee recognizes that certain investment alternatives present challenges in monitoring, given the nature of the investment alternative's portfolio and peer group. Thus, there are several instances where investment alternatives will not fit neatly into the monitoring framework set forth herein. Therefore, the Committee must consider additional or different factors when evaluating certain investments. The following are common examples of investments requiring a different point of view, whether the Committee has included them in the current menu or may consider doing so in the future.

*Multi-asset class investments.* For multi-asset class investment alternatives, such as target-date funds, the asset allocation and glide path should be evaluated taking into account factors such as generally accepted investment theories and prevailing investment industry practices, and goals of the plan, the philosophy of the fiduciaries regarding asset class diversification and the desired relationship of risk (or volatility) and potential return, and the needs and abilities of the participants and beneficiaries. The Committee, with the assistance of the Investment Consultant, expects to engage in a process to identify and consider those goals, preferences, needs and abilities and to select a default investment consistent with that analysis.

As the process for comparing multi-asset class investments, including target-date funds, differs from the process used for other investment selections in several respects. Criteria listed elsewhere in this Investment Policy Statement may not apply.



*Index fund.* The goal of an index fund is to closely mirror the performance of a predetermined index at a reasonable cost. The criteria which may be used to evaluate index funds is set forth in Appendix C and may be updated from time-to-time at the Committee's discretion.

Each index fund will be compared to a standard index for its respective category classification and assigned a ranking in each of the four criteria. The rankings for all criteria are then weighted and averaged to give an investment alternative its average ranking score. Index funds with an average ranking score in the top 75% of the investment alternative's in a category are given a passing score ("Pass"), while investment alternatives below in the lowest 25% of investment alternatives are given a failing score ("Fail").

*Stable value investments:* The goal of a stable value fund is to preserve capital. Stable value investments come in several structures: pooled/comingled funds, insurance separate accounts, and guaranteed investment contracts (GICs)/insurance general accounts or derivatives thereof.

One investment characteristic of these products is their investment in various sectors of the bond market. Thus, part of the evaluation will hinge on the evaluation of the underlying bond portfolio. The other important characteristic is financial credit worthiness of the insurance companies that issue wrap contracts to protect the book value of the bond portfolios. Some additional unique (albeit not exhaustive) metrics and characteristics that warrant evaluation include market-to-book value ratio, participant /plan sponsor withdrawal restrictions, crediting rate and wrap structure. For insurance general accounts, the Committee should at a minimum review the crediting rate, withdrawal restrictions, and credit worthiness ratings of the insurer.

## **VII. Monitoring of Investment Policy and Investment Performance**

The Committee, with the assistance of the Investment Consultant, will review the Plan's Investment Policy and monitor each investment alternative on an ongoing basis. The Committee will periodically evaluate the investment results of the investment alternatives.

In addition, the Committee shall maintain a "Watch List" for investment alternatives that are not meeting certain objectives. An investment alternative will be placed on the "Watch List" when the Committee and/or the Investment Consultant determines that the fund selected for the Plan fails to meet the performance benchmarks set forth above in the Evaluation Methodology for some period of time to be determined by the Investment Consultant and Committee.

At a minimum, the Committee should follow the below procedure:

Whenever an investment alternative falls into the 3<sup>rd</sup> quartile based on SageView's scoring system, it should be placed on the Watch List. The alternative will be monitored and remain





on the Watch List for four consecutive quarters, even if its performance improves. If the alternative remains in the 3<sup>rd</sup> quartile for four consecutive quarters, a detailed review of the alternative should be made and a recommendation to replace or retain the alternative should be presented to the Committee. The alternative may be reviewed sooner at the Committee's discretion.

Whenever an investment alternative falls into the 4<sup>th</sup> quartile based on SageView's scoring system, a detailed review of the alternative should be made as soon as possible, or at the next Committee meeting, and a recommendation to replace (or retain) the fund should be presented.

Investment alternatives that fail to meet qualitative criteria (i.e.: manager changes, fund company reorganizations, strategy changes) will be put on the Watch List by the Committee.

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

Final selection, replacement and/or removal of an investment alternative shall be completed only after conducting a thorough review of the identified investment alternative.

#### **A. Proxy Voting**

Should the Committee elect to participate in a proxy vote, the Committee shall be required to provide a detailed analysis of voting activities on an annual basis (calendar year). When voting proxies, the Committee will vote to the best of their abilities in the best interest of the Plan's participants. The Committee is not required to participate in all proxy votes related to the investments in the Plan. SageView is able to offer general guidance and provide clarification with respect to the process of voting by proxy but will not be responsible for making vote decisions.

*Note: The provisions of this Investment Policy Statement are guidelines only. The fiduciaries are not required to follow them. Instead, fiduciaries are expected to exercise independent judgment for the benefit of the participants.*



## **VIII. Review and Revisions**

Upon written recommendation by the Committee, the City Council reserves the right to amend the Investment Policy Statement at any time it deems such amendment to be necessary or to comply with changes in applicable law as these changes affect the investment of the Plan's assets. Until revised or amended by the City Council, the Investment Policy Statement shall remain in effect.

If there is any conflict between the Investment Policy Statement and the Plan, the terms and conditions of the Plan will control.



ADOPTED THIS \_\_\_\_ DAY OF \_\_\_\_\_, 2021 BY THE CITY COUNCIL OF THE CITY OF COCOA.

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Michael C. Blake, Mayor

ATTEST:

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Carie E. Shealy, City Clerk



## Appendix A – 401(a) Defined Contribution/457(b) Deferred Compensation Plan Committee Charter

### Introduction

The City of Cocoa (“Plan Sponsor”) is the sponsor of a retirement plan, City of Cocoa 401(a) Defined Contribution Plan and City of Cocoa 457(b) Deferred Compensation Plan (the “Plans”). The City Council intends to delegate administrative and investment oversight of the Plan to the Retirement Plan Committee (“Committee”).

When acting as a Plan fiduciary, each Committee member shall discharge his or her duties with respect to the Plan solely in the interests of Plan participants and beneficiaries and for the “exclusive purpose” of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the plan. The Committee shall exercise due diligence and independent investigation before reaching a decision. When appropriate, the Committee shall consult with outside experts, such as investment consultants, accountants and attorneys and shall be entitled to rely upon information furnished by any consultant or any opinions furnished by legal counsel except otherwise provided by law.

### Organization

The Committee shall consist of no less than three (3) members, but no more than five (5) members. The City Council hereby appoints the following, either by name or by title, to serve as members of the initial Committee:

- (1) Administrative Service Director
- (2) Finance Director
- (3) A qualified Plan participant appointed by the City Manager that is not a direct subordinate of any other member of the Committee

After the initial nomination above, the City Manager may from time to time appoint no more than five (5) Committee members meeting the same qualifications as stated in (3) above, remove existing members by name or by title, or fill any vacancies on the Committee. A majority of the Committee shall constitute a quorum for the transaction of business. Actions of the Committee shall be taken by vote at a duly noticed public meeting. All actions taken by the Committee shall be by a vote of the majority of those present at such meetings. The Committee may nominate a member or members to serve as signatories for the Committee.

Committee meetings shall be public meeting and shall otherwise be subject to Section 286.011, Florida Statutes, as may be amended.



## **Authority and Responsibilities**

The City Council hereby delegates to the Committee the responsibility and authority to perform the following functions:

### *Investment Duties*

1. Develop the investment structures and investment policy for the Plan.
2. Select and monitor investments offered to participants of the Plan in accordance with the policies.
3. Determine the investment needs of the participants and the services to respond to those needs.
4. Make such other decisions as are necessary and appropriate to prudently manage the Plan's selection of investments and investment-related services.

### *Administrative Duties*

1. Review all fees incurred by or on behalf of the Plan for reasonableness.
2. Select and monitor the Plan's providers and advisors.
3. Preparing amendments to the Plan for changes in design or applicable laws and regulations.
4. Make such other decisions as are necessary and appropriate to follow the guidelines and requirements set out in ERISA as a best practice as benefit to the Plan participants, and in order to maintain a qualified plan or to fulfill the terms of the plan.

The City Council retains the oversight responsibility to monitor the performance of the Committee to determine that the members continue to be qualified to fulfill those responsibilities and that the Committee is be qualified to fulfill those responsibilities and that the Committee is operating in furtherance of those purposes. In that regard, the Committee will report to the Board, at least annually, concerning its activities related to the responsibilities delegated by this Charter.

## **Compensation**

All members receiving full-time compensation from the Plan Sponsor shall serve without additional compensation for the performance of their duties as members of the Committee.

## **Indemnification**

The Plan Sponsor shall, to the fullest extent permitted by law, indemnify and hold harmless any person made or threatened to be made a party to an action or proceeding, whether civil or criminal, by reason of the fact that he or she is or was a member of this Committee, other than with respect to any action or proceeding resulting from such person's willful misconduct.



