

**TAB 4**

## Diane Ponder

---

**From:** Gregory Gosch [goschg@saw-grass.com]  
**Sent:** Monday, November 02, 2009 12:38 PM  
**To:** Diane Ponder  
**Subject:** re: Palmetto Police Officers' Pension

**Attachments:** GGOSCH.vcf



GGOSCH.vcf (528  
B)

Diane,  
There are a couple of iddues that I have Bryan reviewing to change in the documtn which may delay the execution of this. Let me know if you have any questions.

Thanks!

Gregory S Gosch  
Senior Client Relationship Manager  
Sawgrass Asset Management, L.L.C.  
"Blending the Art and Science of Investing"  
1579 The Greens Way Suite 20  
Jacksonville Beach, FL 32250  
904-493-5506 Phone  
904-493-5522 Fax  
goschg@saw-grass.com

\*\*\*\*\* Sawgrass Asset Management \*\*\*\*\*

This message is intended for the confidential use of the designated recipient(s) named above. If you are not the intended recipient of this message you are hereby notified that any review, dissemination, distribution or copying of this message is strictly prohibited. Email transmission cannot be guaranteed to be secure or error-free. If you feel you've received this email in error please forward to info@saw-grass.com. All email messages and attachments sent to or from this address are subject to monitoring and archival and may be seen by persons other than the recipient/sender.

**CITY OF PALMETTO**  
(PLAN SPONSER)  
**POLICE OFFICERS'**  
**RETIREMENT FUND**

**Investment Policy Statement**

**I. PURPOSE OF INVESTMENT POLICY STATEMENT**

The Pension Board of Trustees (Board) maintains that an important determinant of future investment returns is the expression and periodic review of the City of Palmetto Police Officers' Retirement Fund (the Plan) investment objectives. To that end, the Board has adopted this statement of Investment Policy and directs that it apply to all assets under their control.

In fulfilling their fiduciary responsibility, the Board recognizes that the retirement system is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Plan are long-term and that investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains or losses - commensurate with the Prudent Investor Rule and any other applicable ordinances and statutes.

Reasonable consistency of return and protection of assets against the inroads of inflation are paramount. However, interest rate fluctuations and volatility of securities markets make it necessary to judge results within the context of several years rather than over short periods of five years or less.

The Board will employ investment professionals to oversee and invest the assets of the Plan. Within the parameters allowed in this document and their agreements with the Board, the investment management professionals shall have investment discretion over their mandates, including security selection, sector weightings and investment style.

The Board, in performing their investment duties, shall comply with the fiduciary standards set forth in Employee Retirement Income Security Act of 1974 (ERISA) at 29 U.S.C. s. 1104(a) (1) (A) - (C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

## II. TARGET ALLOCATIONS

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the fund. The investment manager(s) are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria. The Board has established the following asset allocation targets for the total fund:

<b>Asset Class</b>	<b>Target</b>	<b>Range</b>	<b>Benchmark Index</b>
Domestic Equity	45%	40% - 50%	Russell 3000
International Equity	15%	10% - 20%	MSCI-ACWI ex. U.S.
Broad Market Fixed Income	40%	35% - 45%	Barclays Aggregate
TIPS*	0%	0% - 7%	Barclays TIPS

\*Benchmark will default to "broad market fixed income" if these portfolios are not funded. Targets and ranges above are based on market value of total Plan assets.

The investment consultant will monitor the aggregate asset allocation of the portfolio, and will rebalance to the target asset allocation based on market conditions. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed proportionally based on the most current market values available. The Board does not intend to exercise short-term changes to the target allocation.

## III. INVESTMENT PERFORMANCE OBJECTIVES

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers.

### A. Total Portfolio Performance

1. The performance of the total portfolio will be measured for rolling three and five year periods. The performance of the portfolio will be compared to the return of the policy indexes comprised of 45% Russell 3000, 15% MSCI ACWI ex. U.S., and 40% Barclays Aggregate Bond Index.
2. On a relative basis, it is expected that the total portfolio performance will rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three and five-year time periods.
3. On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumption (8%), and provide inflation protection by meeting Consumer Price Index plus 3%.

## B. Equity Performance

The combined equity portion of the portfolio, defined as common stocks and convertible bonds, is expected to perform at a rate at least equal to the 75% Russell 3000 and 25% MSCI ACWI ex. U.S. Index. Individual components of the equity portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum. All portfolios are expected to rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three and five-year time periods.

## C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability and liquidity to the total portfolio. The fixed income portion of the portfolio is expected to perform at a rate at least equal to the Barclays Capital U.S. Aggregate Bond Index. All portfolios are expected to rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three and five-year time periods.

## D. Treasury Inflation Protection Security (TIPS) Performance

The overall objective of the TIPS portfolio, if utilized, is to provide inflation protection while adding stability to the total portfolio. If TIPS are utilized the strategy is expected to approximate the structure and performance of the Barclays Capital U.S Treasury TIPS Index.

## E. Real Estate Performance

The overall objective of the real estate portfolio of the portfolio, if utilized, is to add diversification and another stable income stream to the total fund. The real estate portion of the total fund, defined as core, open ended private real estate, is expected to perform at a rate at least equal to the NCREIF Index and rank in the top 40<sup>th</sup> percentile of the appropriate peer universe over three and five-year time periods.

## F. Alternative and Other Asset Performance

The overall objective of the alternative and/or "other asset" portion of the portfolio, if utilized, is to reduce the overall volatility of the portfolio and enhance returns. This portion of the fund will be benchmarked as outlined in the manager addendum.

# IV. INVESTMENT GUIDELINES

## A. Authorized Investments

Pursuant to the investment powers of the Board of Trustees as set forth in the Florida Statutes and local ordinances, the Board of Trustees sets forth the following investment guidelines and limitations:

1. Equities:

- a. Must be traded on a national exchange or electronic network; and
- b. Not more than 5% of the Plan's assets, at the time of purchase, shall be invested in the common stock, capital stock or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company; and
- c. Additional criteria may be outlined in the manager's addendum.

2. Fixed Income:

- a. All fixed income investments shall have a minimum rating of investment grade or higher as reported by a major credit rating service; and
- b. The value of bonds issued by any single corporation shall not exceed 3% of the total fund; and
- c. Additional criteria may be outlined in the manager's addendum.

3. Money Market:

- a. The money market fund or STIF options provided by the Plan's custodian; and
- b. Have a minimum rating of Standard & Poor's A1 or Moody's P1.

4. Pooled Funds:

Investments made by the Board may include pooled funds. For purposes of this policy pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and private equity. Pooled funds may be governed by separate documents which may include investments not expressly permitted in this Investment Policy Statement. In the event of investment by the Plan into a pooled fund, the Board will adopt the prospectus or governing policy of that fund as the stated addendum to this Investment Policy Statement.

B. Trading Parameters

When feasible and appropriate, all securities shall be competitively bid. Except as otherwise required by law, the most economically advantageous bid shall be selected. Commissions paid for purchase of securities must meet the prevailing best-execution rates. The responsibility of monitoring best price and execution of trades placed by each manager on behalf of the Plan will be governed by the Portfolio Management Agreement between the Plan and the Investment Managers.

C. Limitations

1. Investments in corporate common stock and convertible bonds shall not exceed the greater of 60% at cost or 60% at market of the Plan assets.
2. Foreign securities shall not exceed twenty-five percent (25%) of Plan's market value.
3. All equity and fixed income securities must be readily marketable. Commingled funds must be independently appraised at least annually.

D. Absolute Restrictions

No investments shall be permitted in;

1. Any investment not specifically allowed as part of this policy.
2. Illiquid investments, as described in Chapter 215.47, Florida Statutes.
3. Direct investment in 'Scrutinized Companies' identified in the periodic publication by the State Board of Administration ("SBA list", updated on their website [www.sbafla.com/fsb/](http://www.sbafla.com/fsb/)), is prohibited. Any security identified as non-compliant on or before January 1, 2010 must be divested by September 1, 2010. Securities identified after January 1, 2010, are subject to the provisions of section V. (c) below. However, if divestiture of business activities is accomplished and the company is subsequently removed from the SBA list, the manager can continue to hold that security. Indirect investment in 'Scrutinized Companies' (through pooled funds) are governed by the provisions of Section V(G) below.

V. **COMMUNICATIONS**

- A. On a monthly basis, the custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.
- B. On a quarterly basis, the Investment Managers shall provide a written report affirming compliance with the security restrictions of Section IV (as well as any provisions outlined in the Investment Manager's addendum). In addition, the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of the Plan. Written reports shall be delivered to the Board within 30 days of the end of the quarter. A copy of the written report shall be submitted to the person designated by the City, and shall be available for public inspection. The Investment Managers will provide immediate written and telephone notice to the Board of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section IV or their Investment Manager addendum.

- C. If the Fund owns investments, that complied with section IV at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with the prudent man standard of care, but no additional investment may be made unless authorized by law or ordinance. An action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.
- D. The Investment Consultant shall evaluate and report on a quarterly basis the rate of return net of investment fees and relative performance of the Plan.
- E. The Board will meet periodically to review the Investment Consultant performance report. The Board will meet with the investment manager and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a periodic basis.
- F. At least annually, the Board shall provide the Investment Managers with projected disbursement needs of the Plan so that the investment portfolio can be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To this end the Investment Managers should, to the extent possible, attempt to match investment maturities with known cash needs and anticipated cash-flow requirements.
- G. The Investment Consultant, on behalf of the Plan, shall send a letter to any pooled fund referring the investment manager to the listing of 'Scrutinized Companies' by the State Board of Administration ('SBA list'), on their website [www.sbafla.com/fsb/](http://www.sbafla.com/fsb/). This letter shall request that they consider removing such companies from the fund or create a similar actively managed fund having indirect holdings devoid of such companies. If the manager creates a similar fund, the Plan shall replace all applicable investments with investments in the similar fund in an expedited timeframe consistent with prudent investing standards. For the purposes of this section, a private equity fund is deemed to be an actively managed investment fund. However, after sending the required correspondence, the Plan is not required to sell the pooled fund.

## VI. COMPLIANCE

- A. It is the direction of the Board that the plan assets are held by a third party custodian, and that all securities purchased by, and all collateral obtained by the plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or their designee. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis to insure that the custodian will have the security or money in hand at conclusion of the transaction.
- B. The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.



- C. At the direction of the Board operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the plan sponsor, to the extent possible.
- D. Each member of the Board shall participate in a continuing education program relating to investments and the Board's responsibilities to the Plan. It is suggested that this education process begin during each Trustee's first term.
- E. With each actuarial valuation, the Board shall determine the total expected annual rate of return for the current year, for each of the next several years and for the long term thereafter. This determination shall be filed promptly with the Department of Management Services, the plan's sponsor and the consulting actuary.
- F. The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. Each Investment Manager shall provide the Board with a copy of their proxy voting policy for approval. On a regular basis, at least annually, each manager shall report a record of their proxy vote.

## **VII. CRITERIA FOR INVESTMENT MANAGER REVIEW**

The Board wishes to adopt standards by which judgments of the ongoing performance of a portfolio manager may be made. If, at any time, any three of the following is breached, the portfolio manager may be warned of the Board's serious concern for the Plan's continued safety and performance. If any five of these are violated the consultant may recommend a manager search for that mandate.

- Four (4) consecutive quarters of relative under-performance verses the benchmark.
- Three (3) year trailing return below the top 40<sup>th</sup> percentile within the appropriate peer group and under performance verses the benchmark.
- Five (5) year trailing return below the top 40<sup>th</sup> percentile and under performance verses the benchmark.
- Three (3) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Five (5) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Style consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark.
- Failure to adhere to the IPS or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC).
- Significant asset flows into or out of the company.

- Merger or sale of firm.
- Fee increases outside of the competitive range.
- Servicing issues – key personnel stop servicing the account without proper notification.
- Failure to attain a 60% vote of confidence by the Board.

Nothing in this section shall limit or diminish the Board's right to terminate the manager at any time for any reason.

### **VIII. APPLICABLE CITY ORDINANCES**

If at any time this document is found to be in conflict with the City Ordinances or applicable Florida Statutes, the Ordinances and Statutes shall prevail.

### **IX. REVIEW AND AMENDMENTS**

It is the Board's intention to review this document at least annually subsequent to the actuarial report and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, the Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, the Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified in writing. By initialing and continuing acceptance of this Investment Policy Statement, the Investment Managers concur with the provisions of this document. By signing this document, the Chairman attests that this policy has been recommended by the Investment Consultant, reviewed by the plan's legal counsel for compliance with applicable law, and approved by the Board of Trustees.

### **X. FILING OF THE INVESTMENT POLICY**

Upon adoption by the Board, the investment policy shall be promptly filed with the Florida Department of Management Services, the City, and the plan's actuary. The effective date of the Investment Policy shall be the 31 days following the filing date with the City.

### **CITY OF PALMETTO POLICE OFFICERS' RETIREMENT FUND**

\_\_\_\_\_  
Chairman, Board of Trustees

\_\_\_\_\_  
Date

# CITY OF PALMETTO POLICE OFFICERS' RETIREMENT FUND

## ADDENDUM TO STATEMENT OF INVESTMENT POLICY

### Sawgrass Asset management (Core Fixed Income)

Sawgrass Asset Management has been retained by the City of Palmetto Police Officers' Retirement Fund to manage a well-diversified portfolio of fixed income and money market securities. Sawgrass Asset Management was retained for this assignment based on their qualifications and experience in managing fixed income portfolios.

#### I. GUIDELINES

Within the guidelines contained in the Statement of Investment Policy established for the City of Palmetto Police Officers' Retirement Fund, the portfolio must comply with the following:

- A. All securities shall be rated "Investment Grade" by a major rating agency.
- B. Yankee bonds may not exceed 10% of the entire portfolio.
- C. Non-dollar denominated bonds may not exceed 5% of the manager's portfolio.
- D. The market value of bonds issued by any single issuer shall not exceed 5% of the manager's portfolio.
- E. The duration of the manager's portfolio shall fall within a band of +/- 25% of the Target Index.

#### II. INVESTMENT OBJECTIVES

##### Total Portfolio:

- A. The primary objective of the Sawgrass Asset Management portfolio shall be to achieve a total return over the longer term, 3 to 5 years, in excess of a Target Index. The Target Index for the portfolio is defined as a 100% investment in the Barclays Capital U.S. Aggregate Bond Index.
- B. The secondary objective of the Sawgrass Asset Management portfolio shall be to achieve a total rate of return over the longer term, 3 to 5 years, that ranks in the top 40<sup>th</sup> percentile of a representative universe of similarly managed portfolios.
- C. The volatility of the Fund's total returns is expected to be similar to that of this Target Index and will be evaluated accordingly.

### III. POLICY REVIEW

**This Addendum is a part of the City of Palmetto Police Officers' Retirement Fund Investment Policy and is intended only to complement the objectives and guidelines outlined therein.** It is the intention of the Board of Trustees of the City of Palmetto Police Officers' Retirement Fund to review the Statement of Investment Policy and this Addendum from time to time and to amend them if necessary to reflect any changes in philosophy or objectives. However, if at any time the investment manager believes that the specific objectives defined herein cannot be met, or that the guidelines unnecessarily constrict performance, the Trustees shall be so notified in writing. **By signing this addendum the investment manager understands and agrees to adhere to the guidelines, investment manager responsibilities, and other conditions therein.**

\_\_\_\_\_  
Chairman, Board of Trustees

\_\_\_\_\_  
Date

\_\_\_\_\_  
Sawgrass Asset Management

\_\_\_\_\_  
Date

# CITY OF PALMETTO POLICE OFFICERS' RETIREMENT FUND

## ADDENDUM TO STATEMENT OF INVESTMENT POLICY

### Sawgrass Asset Management (Large Growth)

Sawgrass Asset Management has been retained by the City of Palmetto Police Officers' Retirement Fund to manage a well-diversified portfolio of equity and money market securities. Sawgrass Asset Management was retained for this assignment based on their qualifications and experience in managing equity portfolios.

#### I. GUIDELINES

Within the guidelines contained in the Statement of Investment Policy established for the City of Palmetto Police Officers' Retirement Fund, the Sawgrass portfolio must comply with the following:

- A. The diversification of the equities held in the manager's portfolio among industries and issuers is the responsibility of the investment manager. However, the overall manager's portfolio characteristics should exhibit a large capitalization bias with a "Growth" focus.
- B. Foreign securities including American Depository Receipts (ADRs) are limited to 10% of the manager's portfolio.
- C. Investments in cash and equivalents shall generally not exceed 10%.
- D. Not more than 5% of the manager's assets, at the time of purchase, shall be invested in the common stock, capital stock or convertible stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company.
- E. Short sales are prohibited.
- F. The use of futures and options for hedging purposes is prohibited.
- G. No equities may be purchased which are not publicly traded.
- H. No use may be made of margin or leverage purchases.
- I. No direct commodities are to be purchased.

#### II. INVESTMENT OBJECTIVES

Total Portfolio:

- A. The primary objective of the Sawgrass portfolio shall be to achieve a return over the longer term, 3 to 5 years, in excess of the Russell 1000 Growth Stock Index.
- B. The secondary objective of the portfolio shall be to achieve a rate of return over the longer term, 3 to 5 years, that ranks in the top 40<sup>th</sup> percentile of a representative universe of similarly managed portfolios.
- C. The volatility of the Fund's total returns is expected to be similar to that of this Target Index and will be evaluated accordingly.

**III. POLICY REVIEW**

**This Addendum is a part of the City of Palmetto Police Officers' Retirement Fund Investment Policy and is intended only to complement the objectives and guidelines outlined therein.** It is the intention of the Board of Trustees of the City of Palmetto Police Officers' Retirement Fund to review the Statement of Investment Policy and this Addendum from time to time and to amend them if necessary to reflect any changes in philosophy or objectives. However, if at any time the investment manager believes that the specific objectives defined herein cannot be met, or that the guidelines unnecessarily constrict performance, the Trustees shall be so notified in writing. **By signing this addendum the investment manager understands and agrees to adhere to the guidelines, investment manager responsibilities, and other conditions therein.**

\_\_\_\_\_  
Chairman, Board of Trustees

\_\_\_\_\_  
Date

\_\_\_\_\_  
Sawgrass Asset Management

\_\_\_\_\_  
Date