



**CITY COUNCIL PENSION SUBCOMMITTEE AGENDA  
MONDAY, AUGUST 27, 2012**

**7:00 P.M. MEETING**

**CITY HALL FIRST FLOOR CONFERENCE ROOM (414 EAST FIRST STREET)**

**Mission Statement**

*The City of Newberg serves its citizens, promotes safety, and maintains a healthy community.*

**Vision Statement**

*Newberg will cultivate a healthy, safe environment where citizens can work, play and grow in a friendly, dynamic and diverse community valuing partnerships and opportunity.*

**COUNCIL:**

Councilor Denise Bacon, Chair  
Councilor Ryan Howard, Member  
Councilor Stephen McKinney, Member  
Mayor Bob Andrews (ex-officio)

**STAFF:**

Daniel Danicic, City Manager  
Janelle Nordyke, Finance Director  
Norma Alley, City Recorder

**I. CALL MEETING TO ORDER**

**II. ROLL CALL**

**III. NEW BUSINESS**

1. Review Investment Policy (City's policy in notebook & see attached for Principal's Policy Template)
2. Review Retirement Plan Booklet (in notebook)

**IV. NEXT MEETING**

September 11, 2012, at 6:00 p.m. in the Public Safety Building.

**V. ADJOURNMENT**

*ACCOMMODATION OF PHYSICAL IMPAIRMENTS: In order to accommodate persons with physical impairments, please notify the City Recorder's office of any special physical or language accommodations you may need as far in advance of the meeting as possible and no later than 48 hours prior to the meeting. To request these arrangements, please contact the City Recorder at (503) 537-1283. For TTY services please call 711.*

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# ***Defined Benefit Plan***

## **INVESTMENT POLICY STATEMENT OF:**

### **Plan Name**

(name of retirement plan, hereinafter referred to as “the Plan”)

## **I. PURPOSE OF THIS STATEMENT**

The Investment Policy Statement sets forth the investment objectives and guidelines that will be applied within the investment program to insure that the Plan is managed in a manner consistent with the Plan document and applicable statutory requirements.

The Named Fiduciary reserves the right to amend this Statement at any time as deemed prudent or necessary. Should any amendment to this Statement be required due to changes in the Plan document or a change in applicable law, the Named Fiduciary shall have due time to review such changes and prepare and implement an appropriate amendment. Because of the dynamic nature of the economic environment, developments in financial theories, and advances in technology, this Statement will be examined by the Named Fiduciary from time to time on a formal or informal basis and may, as a result of such examination, be revised by the Named Fiduciary.

Principal Financial Advisers, Inc. (PFA) has been hired as the Investment Adviser to the plan assets. The Named Fiduciary has delegated the tasks of; establishing the asset allocation, implementation of investment strategy, monitoring of investment options and reporting of results to Principal Financial Advisers, Inc. In its capacity as a registered investment adviser, Principal Financial Advisers has assumed the role of a fiduciary as defined in Section 3(38) of ERISA for the asset allocation services provided to its clients.\*

## **II. INVESTMENT OBJECTIVES**

The overall objective of this Statement is to provide guidance for the investment of contributions and other Plan assets, to help maintain adequate funding for Plan liabilities. The primary investment objectives of the Plan are as follows:

- **Return** – Obtain a reasonable long-term return on assets consistent with the level of risk assumed. Specific return objectives include asset returns that, track the growth of liabilities within a reasonable range, and/or exceed the return of a plan specified benchmark index over a market cycle.
- **Cost** – Seek to control the cost of funding the Plan within prudent levels of risk through the investment of Plan assets.

\*The plan sponsor remains the “named fiduciary” of the plan, but Principal Financial Advisers, Inc. is selected as the plan’s investment adviser.

- **Diversification** – Provide diversification of assets in an effort to minimize the risk of large losses and maximize the investment return to the Plan consistent with market and economic risk.

### III. INVESTMENT GUIDELINES

The following guidelines have been established for administering the Plan’s investment program:

#### Asset Allocation Policy

The Investment Adviser shall adopt and implement an asset allocation strategy that is based on several factors including:

- The projected liability stream of benefits and the costs of funding to both covered employees and employers;
- The Plan’s funding level;
- The sensitivity of Plan liabilities to interest rate changes;
- The relationship between the current and projected assets of the Plan and the projected future liability stream;
- Capital market assumptions;
- The perception of future economic conditions, including inflation and interest rate assumptions;
- The ability of the plan to withstand funding fluctuations.

The asset allocation policy shall identify target allocations to eligible asset classes and, suitable ranges within which each asset class can fluctuate as a percent of the total fund. Each asset class is to remain invested at all times in either cash (or cash equivalents) or permitted securities within each asset class. The asset classes may be rebalanced to align the current asset mix with desired targets. The following chart represents the broad asset classes and constraints that PFA utilizes when constructing asset allocations.

#### Asset Class Guidelines

Asset Class	Lower Limit	Upper Limit	Normal Range	Comparative Index
Fixed Income	0%	100%	20% - 80%	Barclays Aggregate Bond Index
Domestic Equities	0%	100%	20% - 80%	S&P 1500 Index
International Equities	0%	50%	0% - 25%	MSCI EAFE Index
Real Return Strategies	0%	15%	0% - 10%	**

\*\* Each Real Return Strategy will have a style specific benchmark index.

#### Investment Categories

The Investment Adviser may consider all asset classes allowed by ERISA as acceptable investment options, Provided that the Plan document allows such an option and such an option is consistent with ERISA §407 and other applicable laws. The Investment Adviser may invest in multiple asset classes.

The following asset classes are permitted for Plan investment options:

1. **Stable** – portfolio comprised primarily of short-term, high quality debt securities including money market investment options, and short-term bonds.

*Strategic Purpose:* Stable returns, income, and diversification

2. **Fixed Income** - portfolios primarily composed of debt securities issued by the U.S. government, U.S. government sponsored/related agencies, and U.S. domiciled corporations or if international bonds, debt securities issued by foreign governments, foreign government sponsored/related agencies, and foreign corporations. Investment options may include all quality ranges (high, medium and low), all durations (short, intermediate and long), be broadly diversified or concentrated (sector funds), and be either actively or passively managed (indexed).

*Strategic Purpose:* Income, diversification, hedge for current liabilities.

3. **Real Return Strategies** – portfolio consisting of strategies that hedge inflation or offer a Real Return. Strategies may include owned real estate, real estate investment trusts and/or other commingled real estate equity investment options, natural resources stock, master limited partnerships, inflation-protected bonds, infrastructure, floating rate debt, and commodities.

*Strategic Purpose:* Income, diversification, inflation hedge

4. **U.S. Stock** - portfolios composed primarily of the common stocks of U.S. domiciled corporations. Investment options may include different sizes (large-cap, mid-cap and small-cap) and styles (value, growth and blend). Such options may be broadly diversified or concentrated (sector funds), and may be either actively or passively managed (indexed).

*Strategic Purpose:* Long-term growth and diversification

5. **Non-U.S. Stock** – portfolios composed primarily of the common stocks of corporations domiciled outside of the U.S. Investment options may include different regional and emerging markets stocks, a variety of sizes (large-cap, mid-cap and small-cap) and styles (value, growth and blend), be broadly diversified or concentrated (sector funds), and be either actively or passively managed (indexed).

*Strategic Purpose:* Long-term growth, diversification

### Selection of Investment Managers and Investment Options

The Investment Adviser shall select investment options based on the evaluation of qualitative and quantitative factors. The manager selection process will focus on the following six key aspects of an investment management firm and investment option:

1. **Organization** – evaluate the key elements of an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff.

2. **Investment Philosophy and Process** – evaluate the key elements of a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls.
3. **Resources** – evaluate the state of current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems.
4. **Performance** – evaluate investment managers’ historical returns and risks relative to passive indexes, and peer groups over longer time periods, like three and five years.
5. **Diversification Benefit** – evaluate the diversification benefit of each investment when analyzing the total portfolio.
6. **Investment Management Fees** – evaluate the proposed fee structure relative to the industry and other competing candidates to ensure fees are appropriate

These factors are chosen to help insure that investment manager/option selections are made with a prudent degree of care, and that excessive risk is avoided. Notwithstanding the above, the Investment Adviser may also include other factors that they believe are appropriate to a specific manager/option selection exercise.

#### Monitoring of Investment Managers and Investment Options

The Investment Adviser will leverage the due diligence program that the Principal Life Insurance Company utilizes when selecting and monitoring the sub advisors of each investment option. The Investment Adviser may at any time add or remove an investment option from the target asset allocation due to an unfavorable change in the management, philosophy, process, performance, or diversification benefit of any investment option.

The objective of the investment manager monitoring process is to identify on a timely basis any adverse changes to the investment manager’s organization or investment process by periodically evaluating a number of qualitative and quantitative factors. In addition, once adverse changes are identified, the monitoring process shall also dictate the timing and manner of response.

If results from Principal Life’s monitoring process indicate substandard investment underperformance or a potentially adverse change in the investment manager’s organization or investment process, the investment option and or manager may be placed in a temporary probationary status known as the Watch List, undergo an in-depth review, or be terminated.

Being placed on Principal Life’s Watch List is meant to convey the increased level of concern about a particular issue or event, which if left unresolved, could endanger the future relationship with the investment manager. An in-depth review may be undertaken as a result of the investment manager/option failing to rectify the issues that led to their

placement on the Watch List, or in response to a major adverse change in the investment manager's organization or investment process to the extent that the firm's ability to manage the portfolio going forward has been impaired. The purpose of the in-depth review is to determine whether terminating the manager/option is an appropriate course of action.

Elimination and Addition of Investment Options

The Investment Adviser may add or eliminate a Plan investment option any time they deem this action is in it the best interests of the Plan

**Signature/Date**

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