

SANIBEL GENERAL EMPLOYEES' RETIREMENT TRUST FUND

Investment Policy Statement

1. SCOPE AND PURPOSE OF THE INVESTMENT POLICY STATEMENT

This investment policy shall apply to all funds under the control of the Board.

The Pension Board of Trustees maintains that an important determinant of future investment returns is the expression and periodic review of the Plan's investment objectives. To that end, the Trustees have adopted this Statement of Investment Policy.

In fulfilling their fiduciary responsibility, the Board recognizes that the Plan 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 the investment policy should be made with a view towards growth, bond income, and de-risking over a number of years. The Board is mindful that this is a **closed** Plan and that managing investments to ensure that cash is available to pay employee benefits and Plan expenses is an important objective. A Liability Driven Investment (LDI) program was implemented in the first quarter of 2024. The LDI program is expected to gradually match asset and liabilities, lower asset volatility, increase income and reduce exposure to risk-on assets (equities).

2. INVESTMENT AND FIDUCIARY STANDARDS

In performing their investment duties, the Board, its money managers, and investment consultant shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1104 (a) (1) (A)-(C). That is, they must discharge their duties with respect to the Plan solely in the interest of the participants and beneficiaries.

- A. for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plan;
- B. with the care, skill, prudence, and diligence under the circumstance then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aim; and
- C. by diversifying the investments to minimize the risk of large losses.

3. ASSET ALLOCATION AND REBALANCING PROCEDURE

The investment strategy of the Fund utilizes various investment approaches, as follows:

Expected	(Percent)		
<u>Investment Approach</u>	<u>Target Alloc</u>	<u>Min</u>	<u>Max</u>
Large cap core	50.0	35.0	55.0
Real estate	3.0	0.0	N/A
Fixed income (bonds)	46.0	N/A	60.0
Cash equivalents	1.0	N/A	N/A
Total	100.0		

Since market conditions will favor one approach over another, the asset allocation will require periodic rebalancing. The investment consultant and Board will consider adjusting the asset allocation.

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4. PERFORMANCE MEASUREMENT STANDARDS AND EXPECTED ANNUAL RETURN

The Fund's money managers shall have full discretion in the selection and disposition of securities but shall be limited by the investment standards and guidelines set forth in section 5 and by the funds available in their portfolios. The below listed performance measures will be used as objective criteria for evaluating the effectiveness of each investment product:

A. Total Fund Performance

1. The performance of the total Fund will be measured over rolling three and five-year periods.
2. It is expected that the total Fund will not be compared or ranked against other pension plans, since the LDI program is not driven by return on assets (ROA).

B. Performance Standards

1. The large-cap *core* equity product is expected to achieve the returns of the S&P 500 index. The all-cap product is expected to meet the returns of the S&P 600 index.
2. The *fixed-income* portfolio is custom designed with an appropriate asset matching duration to the duration of the Fund's liabilities. Performance will be compared to an appropriate long duration index.

5. INVESTMENT GUIDELINES

Liquidity: The Fund's money manager(s) shall be kept informed of the liquidity requirements of the Plan. The investment portfolios shall be structured to provide sufficient liquidity to pay all benefit and expense obligations as they come due. Furthermore, the Fund shall maintain sufficient funding for unexpected developments, possible future increases in benefits and reduction of interest rates or total return from investments. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements. The Board shall retain cash in such amount as it may deem advisable.

Bid requirement: The Board shall determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the most economically advantageous bid must be selected.

Risk and Diversification: Investments shall be diversified among various asset classes (categories) to the extent practicable to control risk of loss resulting from over concentration in a specific maturity, issuer, industry, instrument, dealer or bank through which financial instruments are bought and sold. The Board recognizes the uncertainty that is associated with achieving the Plan's investment objectives in light of the volatility of capital markets.

A. Authorized Investments. The following investments are authorized:

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1. Cash Equivalents.
2. Obligations issued by the United States Government and its Agencies or obligations guaranteed as to principal and interest by the government of the United States. Bonds or other evidence of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or the District of Columbia provided the issues are traded over-the-counter (OTC) and shall hold a rating of Baa3/ BBB-/BBB- or above by Moody's, Standard & Poor's, and Fitch, respectively. In the event of a downgrade below investment grade, as defined by Bloomberg, the Active Bond Manager may hold up to 5% of these downgraded bonds at market value of the bond total portfolio.
3. Equity investments will be limited to products that track the S&P 500 index or the U.S. Total Market index that includes large-cap, mid-cap, and small-cap.
4. Master limited partnerships with daily liquidity.

B. Prohibited Investments and Limitations

1. Prohibited investments include those companies listed in the State Board of Administration's quarterly report, "List of Prohibited Investments (Companies)", under Protecting Florida Investments Act.
2. Direct investment in "Entities that Boycott Israel" identified in the periodic publication by the State Board of Administration, in conjunction with the Department of Management Services, is prohibited. Securities identified on the list must be divested within twelve (12) months of the company's initial appearance on the list. However, if divestiture of business activities is accomplished and the company is subsequently removed from the list, the manager can continue to hold that security.
3. Equities: Not more than five percent (5%) of the Fund assets, based on market value, shall be invested in the securities of any one issuing company.
4. Non-government bonds: Investments in any one issuing company shall be limited to 2.0% of the total bond portfolio. Permitted fixed income securities rated below A3/A- shall be limited to 40% of the total bond portfolio.
5. The aggregate investment in any one issuing company shall not exceed five percent (5%) of the outstanding capital stock of the company.
6. All approved institutions and dealers transacting repurchase agreements will be required 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.

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7. The following investments are prohibited:
- a. Bonds issued by any state or municipality or any other tax-exempt security
 - b. Commodity futures
 - c. Short sales
 - d. General obligations issued by a foreign government
 - e. Hedge funds
 - f. Insurance annuities
 - g. Repurchase agreements secured by anything but U.S. Government or Agency mortgage backed securities
 - h. Margin purchase or lending or borrowing money
 - i. Options
 - j. Letter stock or private equity placements
 - k. Private residential mortgages
 - l. Securities lending (unless directed by the Board)
 - m. Investments and assets for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism
 - n. Securities of the money manager, the directed trustee/custodian bank, their parent or subsidiaries
 - o. Foreign issued securities not traded in the United States

6. COMMUNICATIONS

- A. The custodian shall apprise the Trustees of all transactions and shall forward all proxies to the money managers within ten calendar days of receipt. 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. On a quarterly basis, each money manager shall provide a written report and a summary of diversification and attendant schedules. Written reports and personal presentations shall be delivered to the Trustees within 30 days of the end of the quarter, if possible. The manager will provide immediate written and telephone notice to the Trustees 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 5 above. If a money manager's account holds securities, which complied with Section 5 at time of purchase, which are subsequently downgraded while held, the manager will dispose of such securities immediately.
- B. The Board shall retain a monitoring service to evaluate and report on a quarterly basis the rate of return and relative performance of the Fund.
- C. The Board will meet with each money manager and review performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on an annual basis

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7. SELECTION OF MONEY MANAGERS

The Board, with assistance from its investment consultant, has the authority to select appropriate money managers to manage Plan assets. Money managers must be either an investment management company or investment advisor as defined by the Investment Advisors Act of 1940, or an insurance company or a bank.

8. 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, as described in section 4. With this in mind, the following are adopted:

9. MONITORING OF MONEY MANAGERS AND PERFORMANCE

Quarterly reports will evaluate the performance of the total Plan and each money manager. The Board understands that the performance of each style or category may vary over short-term periods.

From time to time, but no less than quarterly, the Board will meet to focus on:

- A. Money manager's adherence to this Investment Policy.
- B. Material changes in the money manager's organization, investment philosophy or personnel.
- C. Comparisons of the money manager's results to the index and peer group described in Section 4.
- D. The risk associated with each money manager's portfolio, as measured by the variability of quarterly returns (standard deviation), which should not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark index and peer group.

In addition, the Board will annually focus on the money manager's performance relative to its peers of like investment style or strategy. Each money manager is expected to perform in the upper 40th percentile of an appropriate universe over three and five-year periods and have results similar to its composite.

10. THIRD-PARTY CUSTODIAL AGREEMENTS

All assets shall be held by a third party, and all securities purchased by, and all collateral obtained by, the Board shall be properly designated as an asset of the Fund. No withdrawal of assets, in whole or in part, shall be made except upon authorization by the Board. 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 ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The custodian(s) is required to furnish statements at the end of each month.

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11. INTERNAL CONTROLS

At the time of every financial audit, the CPA shall review the controls that should be designed to prevent loss of funds that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board.

Withdrawal of funds from the custody account may not be made without the signatures of two trustees, one of whom must be the Chairman or Vice-Chairman. The Board must approve all benefit payments and Plan expenses. These are listed on Warrants that are subject to approval at each Board meeting.

12. CONTINUING EDUCATION

All Board members are encouraged to attend continuing education seminars concerning matters related to investment and responsibilities of Board members.

13. REPORTING

Following the end of the fiscal year and completion of the financial statements, the City of Sanibel, as plan sponsor, will be provided with a report that shall include a list of investments in the portfolio by class or type. This report shall show the following information on each security: beginning cost, interest or dividends received, gain or loss on sales, ending cost and ending market value. Assets without a fair market value shall be excluded from determination of annual funding cost. Such report is a public record and will be made available upon request.

14. FLORIDA STATUTES 112.661 AND APPLICABLE CITY OF SANIBEL ORDINANCES

If at any time, this document is found to be in conflict with Chapter 112.661, Florida Statutes, or the applicable Sanibel Code, the Statutes and Code shall prevail.

The Board and its investment managers shall comply with the applicable requirements of Chapter 2023-28, Laws of Florida, including Section 112.662, along with regulations adopted by the Department of Management Services.

- A. Definition of pecuniary factor: The term "pecuniary factor" is defined as a factor that an investment fiduciary "prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with the investment objectives and funding policy of the retirement system. The term does not include the consideration of the furtherance of any social, political, or ideological interests." [112.662(1)]
- B. Exclusive consideration of pecuniary factors: Only pecuniary factors may be considered, and the interests of the participants and beneficiaries of the system may not be subordinated to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns. [112.662(2)]

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- C. Proxy voting: Only pecuniary factors may be considered when voting proxies. [112.662(3)]
- D. Filing requirements: The Board shall timely comply with the reporting requirement of Section 112.662 by filing a comprehensive report by December 15 of each odd-numbered year. [112.662(4)]. Investment managers and the Board's investment consultant shall assist in the preparation of required reports and shall annually confirm to the Board their compliance with Chapter 2023-28.
- E. Contracting and external communication requirements: Manager contracts shall comply with Section 215.855 as follows:

Any written communication made by an investment manager to a company in which such manager invests public funds on behalf of the Board must include the following disclaimer in a conspicuous location if such communication discusses social, political, or ideological interests; subordinates the interests of the company's shareholders to the interest of another entity; or advocates for the interest of an entity other than the company's shareholders:

The views and opinions expressed in this communication are those of the sender and do not reflect the views and opinions of the people of the State of Florida.

- F. The Investment Consultant will provide Investment Managers for consideration who invest only based on pecuniary factors as defined by Florida Statutes §112.662.
- G. If a Request for Proposals document is issued for Investment Manager services, the solicitation document must include the following:

The Board of Trustees may not request documentation of or consider a vendor's social, political, or ideological interests when determining if the vendor is a responsible vendor. Additionally, the Board of Trustees may not give preference to a vendor based on vendor's social, political, or ideological interests.

15. REVIEW AND AMENDMENTS

It is the Trustees intention to review this document periodically and to amend this statement to reflect any changes in philosophy, objectives or guidelines. In this regard, the money 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 any portfolio manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Trustees should be notified in writing. By initial and continuing acceptance of this Investment Policy Statement, the money manager concurs with the provisions of this document.

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Once the Board has adopted the investment policy, the investment policy shall be promptly filed with the Department of Management Services, the plan sponsor, and the consulting actuary. The effective date of the Investment Policy Statement and any amendment thereto, shall be the 31st calendar day following the filing date with the plan sponsor.

BOARD OF TRUSTEES
SANIBEL GENERAL EMPLOYEES'
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Chairman

Date: