



Village of Downers Grove

Official Village Policy Approved by Village Council

Description:	Other Post-Employment Benefits (“OPEB”) Trust Investment Policy		
Res. or Ord. #:	2019-66	Effective Date:	10/01/19
Category:	Financial Services		
	<input checked="" type="checkbox"/> New Council Policy		
	Amends Previous Policy Dated: _____		
	Description of Previous Policy (if different from above): _____		

1.0 INTRODUCTION AND PURPOSE

1.1 Introduction

The Village of Downers Grove has established the Village of Downers Grove Other Post-Employment Benefits Trust (the “Trust”). This Trust is intended to provide funding of non-pension other post-employment benefits (“OPEB”) for those employees who meet the age and service requirements outlined in the plan document.

1.2 Purpose

The purpose of this policy is to achieve the following:

1. Document investment objectives, investment guidelines and performance expectations for Trust assets.
2. Establish an appropriate investment strategy for managing all Trust assets, including an investment time horizon, risk tolerance ranges and asset allocation to provide sufficient diversification and overall return over the long-term time horizon of the Trust.
3. Establish investment guidelines to control overall risk and liquidity.
4. Establish periodic performance reporting requirements to monitor investment results and confirm that the investment policy is being followed.
5. Comply with fiduciary, prudence, due diligence and legal requirements for Trust assets.

2.0 INVESTMENT OBJECTIVES

The investment objectives of the Trust are as follows:

1. To achieve long-term growth of Trust assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Village’s current and long-term OPEB obligations.

2. To invest assets of the Trust in a manner consistent with the following fiduciary standards: (a) all transactions undertaken must be for the sole interest of Trust beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments.
3. To provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the Trust.
3. To enhance the value of Trust assets in real terms over the long-term through asset appreciation and income generation, while maintaining a reasonable investment risk profile.
4. To minimize principal fluctuations over the Time Horizon (as defined below) subject to performance expectations over the long-term.
5. To achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the performance objective set forth below.

3.0 INVESTMENT AUTHORITY

The Village Manager, or his/her designee has the authority to implement this Policy. The Village Manager has the authority to:

1. Select a custodian to maintain possession of physical securities and records of street name securities owned by the Trust, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Trust.
2. Appoint a trustee, such as a bank trust department to assume fiduciary responsibility for the administration of Trust assets.
3. Engage specialists such as attorneys, auditors, actuaries and retirement plan consultants to assist in performing the responsibilities and obligations to administer Trust assets prudently.

4.0 INVESTMENT GUIDELINES

4.1 Definitions:

4.1.1 "Growth Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within the Growth Assets category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. Examples of such investments or asset classes are: domestic and international equities or equity funds.

4.1.2 "Income Assets" - a collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within the Income Assets category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. Examples of such investments or asset classes are: fixed income securities and fixed income security funds.

4.2 Time Horizon

The Trust's investment objectives are based on a long-term investment horizon ("Time Horizon") of five (5) years or longer, such that the risks and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

4.3 Liquidity and Diversification

In general, the Trust may hold some cash, cash equivalent, and/or money market funds for near-term Trust benefits and expenses (the "Trust Distributions"). Remaining assets will be invested in longer-term investments and shall be diversified with the intent to minimize the risk of long-term investment losses. Consequently, the total portfolio will be constructed and maintained to provide diversification with regard to the concentration of holdings in individual issues, issuers, countries, governments or industries.

4.4 Asset Allocation

4.4.1 In order to meet the Trust's investment objectives, assets will be invested in accordance with the targets for each asset class as follows to achieve an average total annual rate of return that is equal to or greater than the Trust's target rate of return over the long-term, as described below.

Asset Classes	Asset Weightings	
	<i>Range</i>	<i>Target</i>
Growth Assets		
Domestic Equity	19% - 59%	39%
International Equity	1% - 41%	<u>21%</u>
Total Equity		60%
Income Assets		
Fixed Income	20% - 60%	40%
Cash Equivalents	0% - 20%	0%

4.4.2 The asset allocation range established by this policy represents a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside policy ranges. When allocations breach the specified ranges, the portfolio assets will be rebalanced within the specified ranges.

4.5 Performance Expectations

Over the established Time Horizon, the performance expectations for the Trust will be to achieve an average total annual rate of return that is equal to or greater than the Trust's actuarial discount rate. Additionally, it is expected that the annual rate of return on Trust assets will be commensurate with the then prevailing investment environment. Measurement of this return expectation will be judged by reviewing returns in the context of industry standard benchmarks, peer universe comparisons for individual Trust investments and blended benchmark comparisons for the Trust in its entirety.

5.0 SUITABLE AND AUTHORIZED INVESTMENTS

5.1 Investment Types:

5.1.1 Equities

No more than the greater of 5% or weighting in the relevant index (Russell 3000 Index for U.S. issues and MSCI ACWI ex-U.S. for non-U.S. issues) of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

5.1.1.1 Domestic Equities. Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained.

5.1.1.2 International Equities. The overall non-U.S. equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions and sectors.

5.1.2 Fixed Income

Fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. The 5% limitation does not apply to issues of the U.S. Treasury or other Federal Agencies. The overall rating of the fixed income assets shall be investment grade, based on the rating of one Nationally Recognized Statistical Rating Organization ("NRSRO").

5.1.3 Cash Equivalents

Cash equivalents shall be held in funds complying with Rule 2(a)-7 of the Investment Company Act of 1940.

5.2.1 Prohibited Investments

Except for purchases within authorized investments, securities having the following characteristics are not authorized and shall not be purchased: letter stock and other unregistered securities, direct commodities or commodity contracts, or private placements. Further, derivatives, options, or futures for the sole purpose of direct portfolio leveraging are prohibited. Direct ownership of real estate, natural resource properties such as oil, gas or timber and the purchase of collectibles are also prohibited.

5.3 Safekeeping

All assets of the Trust shall be held by a custodian approved by the Village Manager for safekeeping of Trust assets. The custodian shall produce statements on a monthly basis, listing the name and value of all assets held, and the dates and nature of all transactions in accordance with the terms in the Trust Agreement.

Investments of the Trust not held as liquidity or investment reserves shall, at all times, be invested in interest-bearing accounts. Investments and portfolio securities may not be loaned.

6.0 CONTROL PROCEDURES

6.1 Review of Investment Objectives and Performance

The Village Manager shall review annually and report to the Village Council the appropriateness of this policy for achieving the Trust's stated objectives. The Village Manager shall report on a quarterly basis to the Village Council to review the investment performance of the Trust. This investment report should provide a comparison of investment results to appropriate peer universe benchmarks, as well as market indices in both equity and fixed income markets.