

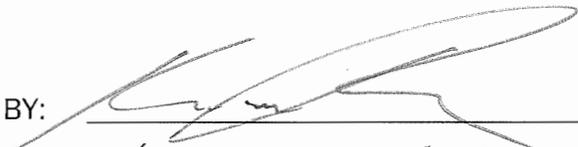
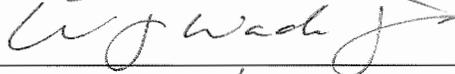
LUBBOCK FIRE PENSION FUND
INVESTMENT POLICY STATEMENT

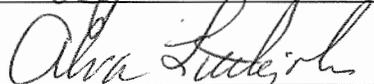
RESTATED
August 9, 2017

This Investment Policy Statement was approved by action of the Board of Trustees of the Lubbock Fire Pension Fund.

DATE: 8/9/17

APPROVED BY:



I. Overview

The Lubbock Fire Pension Fund (hereinafter the “Fund”) is a pension fund founded in 1937 operating under the constitutional and statutory provisions of the State of Texas. It is governed by a Board of Trustees (the “Board”) provided for under the law and funded by contributions from its participants, the City of Lubbock, and from investment earnings. It provides for an orderly means whereby eligible participants of the Lubbock Fire Pension Fund may accumulate reserves for themselves and their dependents, and provide for certain benefits upon retirement, disability, or death under the provisions of the plan.

This Investment Policy Statement (“IPS”) is established to provide guidance in selecting and monitoring the investments of the Fund. The purpose of this IPS is to describe the financial goals of the Fund and to outline the investment strategy that can be used to accomplish those goals. The IPS assists in the investment decision-making process by communicating an understanding of the goals and strategies to all parties involved and by providing a methodology for consistently evaluating performance. The intent of this IPS is to provide guidelines that are specific enough to be meaningful but also flexible enough to take into account practical considerations. The Board reserves the right to amend, supplement or rescind this IPS at any public meeting of the Board in compliance with the Texas Open Meetings Act.

The Board maintains a separate Strategic Asset Allocation and Investment Strategy (the “Investment Strategy”) document that is designed to be reviewed, and if necessary, revised annually. The Investment Strategy document is an integral part of this IPS.

II. Investment Objectives

The objective of investing the assets of the Fund is to grow the assets over time at a compound rate of increase that, together with contributions, will provide a high probability of payment of benefits according to the terms of the Fund. The compound rate of increase is defined as the Actuarial Assumed Rate of Return, as set forth in the Investment Strategy. The Board recognizes that the Actuarial Assumed Rate of Return objective is long term in nature, and that actual year-to-year returns achieved may be above or below the long-term target.

The Board further expects the investments to provide a competitive return relative to other investments available that would meet the Asset Allocation Strategy, as defined below.

III. Responsibilities

Responsibilities of the Board of Trustees and Staff

The ultimate responsibility for oversight of the Fund rests with the fiduciaries of the Fund. The Board of Trustees and staff will exercise its responsibilities as a prudent body in conformance with all applicable statutes of the State of Texas and the Federal Government. The Board and its staff, as fiduciaries, must operate under an extremely high ethical standard and, therefore, must not enter into any action or transaction that would be in conflict or perceived to be in conflict with the best interests of the Fund.

The Board shall act and discharge its fiduciary duties with respect to the Fund solely in the interest of the participants and beneficiaries for the exclusive purpose of providing benefits

to participants and their beneficiaries and defraying reasonable expenses of administering the Fund.

The duties and responsibilities of the Board include but are not limited to:

- i. Ensuring that the Fund is managed effectively and prudently in compliance with all applicable laws and ordinances and the actuarial needs of the Fund.
- ii. Complying with Texas Civil Statutes which can be found at the following internet address: www.legis.state.tx.us and the Texas Government Code Title 8, Subtitle A – Provisions Generally Applicable to Public Retirement Systems which can be seen at the same internet address.
- iii. Acting in good faith on a best-efforts basis to keep the manager apprised of any changes to such applicable statutes.
- iv. Determining an appropriate asset mix based upon capital markets expectations incorporating both historical and projected returns and the asset-liability mix of the Fund.
- v. Delegating supervisory responsibilities to appropriate groups or individuals, assigned staff, or assistants for administration of the Fund.
- vi. Establishing rules, regulations, and bylaws for administering the Fund.
- vii. Monitoring the administration of the Fund, including requesting, mandating, receiving, and reviewing reports as necessary to accomplish this function.
- viii. Monitoring the performance and other critical aspects of the Fund's investment managers, actuaries, accountants, consultants, and other professionals hired to conduct the affairs of the Fund.
- ix. Notifying the appropriate parties including investment managers, consultants and custodian of changes in the governing statutes as necessary.
- x. Establishing policies and objectives relating to the investment of the Fund's assets and monitoring investment performance to ensure that the policies are followed and objectives are met.
- xi. Ascertaining the adequacy of this document, reviewing it annually or as needed, and determining any warranted changes.
- xii. Engaging such professional expertise as may be needed to assist in the supervision of the investment of the Fund's assets including but not limited to investment consultants, custodians, money managers, attorneys, and actuaries.
- xiii. Determining the eligibility, status, and rights of the Fund's participants and beneficiaries in accordance with the appropriate rules, regulations, and interpretations thereof, which have been adopted.
- xiv. To review and resolve contested claims.
- xv. To communicate with the Fund's participants and beneficiaries as is necessary or as required by law or regulation.
- xvi. To discharge its duties with all the judgment, care, skill, prudence, and diligence, under circumstances then prevailing, which a prudent person acting in a like capacity and familiar with such matter would use in the conduct of an enterprise of a like character and like aims by diversifying the investments of the Fund to minimize the risk of large loss.

Responsibilities of Investment Managers

As deemed appropriate by the Board of Trustees, they may contract for professional investment management services (the “Managers”). In selecting, engaging and utilizing Managers, the Board of Trustees will do so prudently and solely in the best interest of the Fund’s participants and beneficiaries. No Trustees of the Board shall be liable for the acts or omissions of the Managers, nor are they obligated to invest or otherwise manage any assets of the Fund subject to the control of the Managers.

The duties and responsibilities of the Managers include but are not limited to:

- i. Maintaining registration under the Federal Investment Advisors Act of 1940, 15 U.S.C. 80 B-1, ET seq.
- ii. Adhering to the policies, objectives and guidelines as set forth in this document.
- iii. The Board hereby instructs all Managers to seek best execution (including the consideration of commissions and market impact costs).
- iv. Exercising such investment discretion as has been authorized by contract with the Board of Trustees and in compliance with policies, objectives, and guidelines set forth in this document.
- v. Managers are fiduciaries and, as such, must comply with all applicable laws and legislation, particularly as it pertains to duties, functions, and responsibilities of a fiduciary and investment manager. Specifically, adherence to the “prudent expert” standard as required.
- vi. Furthermore, all assets must conform to Texas laws governing such investments for the Fund, specifically, Article 6243e. of Vernon’s Texas Civil Statutes which can be found at the following internet address: www.legis.state.tx.us and the Texas Government Code Title 8, Subtitle A – Provisions Generally Applicable to Public Retirement Systems which can be seen at the same internet address. It is understood that the Board will act in good faith on a best-efforts basis to keep the Managers apprised of any changes to such statutes.
- vii. Each Manager must stand ready at all times to explain and justify any investment or asset-related decisions to the Board, or their appointee.
- viii. Formally reporting to the Board on an as-needed basis.
- ix. Each Manager must acknowledge in writing their recognition and acceptance of full responsibilities as a fiduciary under appropriate Federal and State laws and their intention to comply with this document.
- x. Being available to meet or confer with Board or its designated appointees, as required, resolving any questions arising in the day-to-day operations of the Fund.
- xi. Voting proxies. Because of the complexity of issues and the direct impact on asset values, the Board believes its Managers are best positioned to vote proxies of the shares held in the portfolios they manage. The Board directs that the Managers vote proxies in accordance with their own policies in the best interest of the Fund. In general, Manager should vote for issues that will enhance shareholder’s long-term value and against those issues that would decrease shareholder’s long-term value.

Responsibilities of the Consultants:

Due to the complexity of the investment environment, the Board recognizes the need to engage the services of a professional investment consultant (the “Consultant”). The duties of such Consultant include but are not limited to the following:

- i. Assisting the Board in developing investment policy guidelines including appropriate asset classes, asset allocation targets and ranges, and managing risk through diversification.
- ii. Initial due-diligence which includes providing the Board with objective information on the broad range of investment management specialists and assisting the Board in assembling a superior team of investment managers.
- iii. Ongoing due-diligence including but not limited to monitoring both the qualitative and quantitative aspects of the Managers and providing report on a quarterly basis or more timely if the situation demands, such as a change in key personnel.
- iv. Aid the Board in interpreting and understanding the performance data on the Managers and the Fund as a whole.
- v. Making recommendations to the Board as warranted to put a Manager on probation or terminate them for reasons including but not limited to the following: failure to consistently meet investment objectives over a reasonable period of time, a significant change in investment objectives or process, deviation from investment guidelines, a change in key investment personnel, or failure to comply with all applicable regulations and laws including this IPS. A Manager may be removed from probation if they demonstrate satisfactorily to the Board that significant improvement or rectification of the problem has been accomplished.
- vi. Assist the Board in developing and implementing a rebalancing strategy.

Responsibilities of the Custodian:

The custodian appointed by the Board has the following duties and responsibilities, among others:

- i. Accepts possession of the investment securities for safekeeping, collects income from investments, collects principal of called, matured or sold securities, and provides periodic statements of the accounts.
- ii. The custodian will sweep free credit balances into an appropriate money market fund as directed in writing by the Board.
- iii. Settles trades as they occur.
- iv. Receives contributions and makes disbursement by check or wired funds as directed in writing by the Board or its designee.
- v. Provide consultants and other appropriate parties with statements and with electronic downloads of accounts as required.
- vi. Advise consultant and asset managers by telephone or email on any transfer of funds.
- vii. Is available as necessary to confer with the Board, and to answer any operational questions as they arise.

IV. Asset Allocation Strategy

The asset allocation strategy is designed to reflect, and be consistent with, the long-term Investment Objectives expressed in this IPS. Various asset classes and investment styles are used to create a broadly diversified portfolio. The Board has developed long-term asset allocation ranges based on several factors including: the long-term investment goals of the Fund; the Board's tolerance for short-term losses; the Fund's liquidity needs; and any legal or regulatory issues. Based on the Board's analyses, the allowable long-term asset allocation ranges are outlined below.

the greatest incremental benefit to the Fund, net of fees and expenses. The Board will focus on firms that have products with GIPS compliant track records of a minimum of five years.

2. The Consultant, working with the Board, will establish certain consistently applied minimum criteria for a money manager to be considered to participate in the search.
3. Analysis of qualified candidates will be based on:
 - a. Quantitative characteristics, such as Global Investment Performance Standards (GIPS), compliant composite return data, risk-adjusted rates of return, fees, and relevant portfolio characteristics,
 - b. Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls, and
 - c. Organizational factors such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients and fees.
4. The Board may interview finalist candidates or may select money managers without formal interviews.

VII. Review Standards

Performance Benchmarks

The Board intends to select active Managers that will outperform, on a net-of-fee basis, the designated passive index, and rank above median within a peer universe of active Investment managers. Passive products are expected to produce returns that exhibit minimal tracking error to their target index returns.

Time Horizon

Active Managers are expected to outperform their designated benchmark over rolling three- to five-year periods. A three- to five-year period is used to allow Managers the opportunity to meet their performance benchmarks, given shorter-term fluctuations due to style considerations. Managers who fail to meet the performance benchmarks over these time periods may be terminated. Underperformance for two consecutive years may be cause for a formal review of the Manager's organization, process and performance.

Compliance with Policies and Guidelines

Each retained Manager's portfolio will be monitored for compliance with the Policies and Guidelines found in this and other documents. If a portfolio is determined to be out of compliance, the retained Manager will be contacted to develop a mutually agreed upon solution to bring the portfolio back into compliance with this IPS. If retained Manager fails to move the portfolio into compliance, termination of the retained Manager will be considered.

Other Standards

Any significant changes in investment philosophy and process, organizational structure, investment staff, or other non-performance reasons may be cause for termination, regardless of the status of their investment performance relative to their designated benchmarks. The Board retains the right to terminate a Manager for any reason subject to the terms of the agreement between the two parties.

**Lubbock Fire Pension Fund
Strategic Asset Allocation and Investment Structure
October 2017**

Purpose of the Strategic Asset Allocation and Investment Structure

This document is intended to supplement the Statement of Investment Policy (“IPS”) of the Lubbock Fire Pension Fund. The IPS is long term in nature while this Strategic Asset Allocation and Investment Structure (“Investment Strategy”) document is designed to be reviewed, and if necessary revised, annually by the Board of Trustees (“Board”).

The Investment Strategy includes the following:

- Actuarial assumed rate of return,
- Strategic asset class targets and ranges, refined within the IPS allowable ranges,
- Liquidity policy, and
- Investment structure and performance benchmarks for the Total Plan and subcomponents.

Actuarial Assumed Rate of Return

The long-term actuarial assumed rate of return is 7.75%

Strategic Asset Class Targets and Ranges

<u>Asset Class</u>	<u>Target</u>	<u>Allowable Range</u>
Public Equities	45%	35% - 50%
Private Equities	<u>10%</u>	<u>5% - 15%</u>
Total Equities	55%	45% - 65%
Fixed Rate Debt	10%	5% - 20%
Floating Rate Debt	<u>15%</u>	<u>5% - 20%</u>
Total Debt	25%	20% - 40%
Core Private Equity Real Estate	10%	5% - 15%
Value-Added Equity Real Estate	<u>5%</u>	<u>0% - 10%</u>
Total Real Estate	15%	10% - 25%
Low Volatility	5%	0% - 10%

Liquidity Policy

The IPS states that the Plan Administrator of the Fund will determine the appropriate level of cash reserves depending on the anticipated liquidity needs. The Board takes a total return

approach and therefore any income generated from investments, where allowed, will be reinvested. Based on the current liquidity requirements, the Plan Administrator has determined that the current liquidity requirements are \$2 million. When the balance exceeds \$2.5 million, excess reserve cash will be transferred into the invested assets. When the balance falls below \$500,000, the cash reserves will be replenished to \$2 million by liquidation of invested assets. The Plan Administrator, with the assistance of the investment consultant, will coordinate all cash inflows and outflows with the effected accounts and with the Custodian and affected Managers.

Investment Structure and Performance Benchmarks

The Plan’s investments, in total, by asset class and individual manager, will be measured against appropriate benchmarks. Unless otherwise stated, performance will be compared on a net-of-investment management fees basis.

Total Plan Benchmarks:

Absolute Return:	7.75%		
Relative Return:	Public Defined Benefit Pension Plans		
Benchmark Index:	45%	MSCI All Country World	(Public Equities)
	10%	Russell 3000	(Private Equities)
	10%	BBgBarc US Aggregate	(Fixed Rate Debt)
	15%	Credit Suisse Leveraged Loan	(Floating Rate Debt)
	10%	NFI ODCE	(Core Private Equity Real Estate)
	5%	NCREIF Property	(Value-add Private Equity Real Estate)
	5%	50% S&P 500/50% T-Bills	(Low Volatility Strategies)

Investment Products and Benchmarks

Investment Manager	Investment Product	Fee Structure	Investment Style/Universe	Benchmark Index	Target Allocation
Vanguard Group	Vanguard Total Stock Market Index– Institutional: Ticker VITSX	0.04% Expense Ratio	U.S. Equity Total Stock Market Index	CRSP US Total Market Index	15%
Vanguard Group	Vanguard Total International Stock Markets Index – Instit.: Ticker VTSNX	0.09% Expense Ratio	Non-U.S. Equity Index	FTSE Global All Cap ex US	10%
Dodge & Cox	Dodge & Cox Global Stock fund: Ticker DODWX	0.63% of Assets	Global Equity Large Cap Value	MSCI ACWI	10%
GQG Partners	GQG Partners Global Equity Fund LLC	0.80% of Assets	Global Equity Large Cap Growth	MSCI ACWI	10%
Garcia Hamilton & Associates	Core fixed income separate account	0.30% of first \$10 Mil 0.25% on remainder	Core Fixed Income	BBgBarc US Aggregate	10%
Virtus Investment Partners	Virtus Seix Floating Rate High Income Fund: Ticker SFRZX	0.37% Expense Ratio	Floating Rate Debt	Credit Suisse Leveraged Loan	5%
Future Floating Rate Debt Strategies					10%
Harvest Interests	CDK Multi-Family Fund I, LLC	Acquisition: 1.5% Management: 1.5% of invested Capital 20% Carry over 12% Preferred	Value-Add Private Equity Real Estate	NCREIF Property	2%
Future Real Estate Managers					13%
Parametric Portfolio Associates	Parametric Defensive Equity Fund, LLC	0.35% of Assets	Defensive Equity	50% S&P 500/50% T-Bills	5%

Future Private Equity Strategies				10%
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Private Capital Program Structure:

Investment Manager	Investment Product	Commitment Amount	Vintage	Fee Structure	Investment Style
WR Huff	The Huff Energy Fund, L.P.	\$5 million	2006 - 2008	Yrs. 1 - 10: 1.5% of Committed Capital After Yr 10: 1% of Appraised Value 20% Carry over 8% Preferred	Energy Sector Focus
Goldman Sachs	Private Equity Partners X Offshore LP	\$5 million	2008 - 2011	Yrs. 1 - 5: 1.25% of Committed Capital After Yr 5: 75% of Preceding Year Rate 5% to 15% Carry over 8% Preferred	Private Equity Multi-Strategy FOF
Blackstone	Tactical Opportunities Fund II	\$5 million	2015 - 2017	1.5% of Committed Capital 15% Carry After Return of Capital	Opportunistic multi-asset class
New Private Equity Managers					
New Floating Rate Debt Managers					