The Firemen's Retirement System of St. Louis

Investment Policy

Policy adopted February 28, 2006
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Firemen's Retirement System
of St. Louis

Statement of Investment Policy

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Statement of Investment Policy

I. Mission Statement

The Board of Trustees (“Board”) of the Firemen’s Retirement System of St. Louis (“System”) is designated as the named fiduciary of the System and as such has a fiduciary responsibility to administer the System’s retirement plan, manage the System’s operations and invest the System’s assets. In recognition of this responsibility, the Board hereby adopts the following Mission Statement:

To play an important role in the future financial security of System participants by providing useful information, quality service and attractive and progressive benefits through professional plan administration and prudent investment management of System assets.

Using this mission statement as a guiding principle, the Board hereby adopts the following Statement of Investment Policy.

II. Purpose of this Statement of Investment Policy

A. The System sponsors a defined benefit pension plan (“Plan”) administered by the Board for the purpose of providing retirement benefits to the System’s participants. The System is funded by contributions from eligible employers. The Board is responsible for ensuring adherence to Plan provisions as well as the investment and administration of System assets.

B. This Statement of Investment Policy (“Policy” or “Statement”) outlines the goals, objectives and guidelines for the System and is set forth in order that:
   1. There be a clear understanding of the financial needs of the System;
   2. There be a determination of the collective risk tolerance of the Board;
   3. The investment managers and other service providers be given guidance and limitation in the investment of System assets; and
   4. The Board Members have a meaningful basis for evaluating: the effectiveness of investment strategy, the achievement of goals and objectives, and the performance of investment managers in order that the Board Members meet their fiduciary responsibility to prudently monitor the System’s investments.

C. The System shall at all times be managed in accordance with Missouri statutes, the City of St. Louis ordinances and any other applicable law or rule, and in accordance with standard prudent investment practices. The Board, System Staff, investment consultant, investment managers, custodian/trustee and all other service providers, as applicable, shall exercise due care in accordance with Missouri Revised Statues, Sections 105.687-690. Permissible investments are outlined in Section 87.260 of the Missouri Revised Statues, 2000, as amended, and Section 4.18.225 of the Revised Code of the City of St. Louis 1994, as amended.

D. It is the intent of the Board in the adoption of this Policy to state the general attitudes, guidelines, and a philosophy concerning the investment of System assets so that the desired investment results shall be achieved. It is the Board's intention that the investment policies be sufficiently specific to be meaningful but adequately flexible to be practicable. However, the policies as stated herein are not to be deviated from by any responsible party without the written permission of the Board.

E. A set of Investment Manager Instructions ("Instructions") will be developed for each investment manager and approved by the Board. Such instructions will contain the manager's benchmark by which the manager's performance is measured, any internal account restrictions or limitations, and any necessary exceptions to the Policy. The Board may periodically approve changes or permit exceptions to this Policy in order to maintain flexibility in the investment of the System's assets, adjust to changes in the capital markets, or take advantage of market opportunities. Such changes or exceptions will be noted in the Instructions.

III. <u>System Circumstances</u>

A. The Plan is an "on-going" pension plan with an open population. It has some liquidity needs which are projected to be met partly from new contributions and is demographically mature. The System's assets shall be invested for total rate of return, with appropriate recognition given to both current income and capital appreciation.

B. The System is less than 100% funded in comparing the actuarial value of assets to the actuarial accrued liability.

C. It is the Board's policy to try to maintain a fully funded status, to the extent possible. The Board's commitment to this policy allows the adoption of a long-term investment time horizon, which is consistent with the long-term nature and liabilities of the System without undue concern for short-term variation in the market value of the System's assets.

D. The actuarial economic and decremental assumptions and cost method being employed with regard to the System have been examined by the Board and are considered to be reasonable and conservative in relation to the investment policies defined herein.

IV. Responsibilities of Board

A. The Board is charged as a named fiduciary with the responsibility for administering and investing assets of the System. The primary responsibilities of the Board are:

1. As a primary objective, to ensure that sufficient assets are available to provide the benefits promised to the System's participants and beneficiaries at the time they are payable;
2. As a secondary objective, to achieve an optimum level of return while avoiding excessive risk; and
3. To accomplish 1 and 2 above effectively and prudently, in full compliance with the law.

B. The specific responsibilities of the Board in managing the investment process include, but are not limited to, the following:

1. Complying with state statutes, the city ordinances, and this Policy.
2. To delegate certain responsibilities to qualified agents or advisors and administrative and operational responsibilities to System Staff in order to assist the Board in fulfilling its fiduciary duties and responsibilities noted above.
3. Determining the System's projected financial needs and communicating such to the System's actuary, investment consultant, investment managers and other service providers as necessary.
4. Minimizing operational risk and potential conflicts of interest by separating the functions of consulting, investment management, trading and custody of assets to the extent prudent.
5. Establishing realistic investment goals and objectives, as well as reasonable investment policies and limitations and reviewing these on a regular basis.
6. Establishing the System's asset allocation (defined as determining an appropriate mix of the System's assets between various asset classes and investment styles) in a manner projected to achieve the System's goals and objectives while minimizing risk.
7. Expressing the collective risk tolerance of the Board, primarily through the System's asset allocation.
8. Selecting qualified actuaries, investment consultants, investment managers, custodians and other service providers. Also communicating the duties and responsibilities to those accountable for achieving investment results and to whom specific responsibilities have been delegated.
9. Monitoring and evaluating performance results to assure compliance with investment guidelines and that objectives are being met.
10. Taking appropriate action to add or replace investment managers or other service providers as necessary.
11. Maintaining all records dealing with the System and its assets, and the investment of those assets.

12. Undertaking such work, studies, or education as may be necessary to keep the Board adequately informed and educated so as to properly fulfill its fiduciary duties.

V. Responsibilities of System Staff

A. The Staff is delegated day-to-day management responsibilities for System assets and the relationships with other agents and advisors. These responsibilities include authority to make and put into effect administrative and operational decisions with respect to the System and reinvest System assets not allocated by the Board. The Staff will report its actions to the Board and meet with the Board at its request.

B. The Staff's responsibilities include, but are not limited to, the following:
1. Making and executing administrative and operational decisions, as assigned by the Board, dealing with the investment and reinvestment of all System assets, and all other administrative and operational decisions which are delegated to the Staff.
2. Maintaining liquidity to meet pension obligations.
3. Managing the day-to-day custodial banking, securities lending and directed brokerage relationships.
4. Reporting to the Board on all matters requested.
5. Working with the investment consultant to assure compliance with this Policy on an ongoing basis and reporting exceptions to the Board.

VI. Responsibilities of the Investment Consultant

A. The primary duty of the investment consultant is to work with the Board and System Staff, supporting the Board's management of the investment process. This includes meeting regularly with the Board to provide information, perspective, and evaluation as to the System's goals, objectives, investment structure, and investment managers which encompass the development, implementation, and monitoring of a properly diversified investment portfolio. To this end, it is imperative that the investment consultant be free from conflicts of interest. Therefore the investment consultant should be:
1. A registered investment advisor under the Investment Advisors Act of 1940, as amended.
2. Have substantial knowledge and experience in working with institutional clients having large asset sizes, with special expertise in working with public pension systems.
3. Be independent and free from conflicts of interest. To ensure this, there shall be a separation of duties so that the investment consultant shall not: manage System assets, provide brokerage services or execute trades, or custody System assets.

B. Specific duties of the investment consultant include, but are not limited to, the following:

1. Making recommendations to the Board of appropriate actions which will enhance the probability of achieving overall objectives such as use of various asset classes, implementation of investment strategy, changes in investment policy and changes in investment managers or other service providers.
2. Assist the Board in developing an appropriate asset mix through the use of regular studies which employ analysis of both the assets and liabilities of the System.
3. Assist the Board in deploying an appropriate asset mix through the development of specific investment strategies and supporting policies.
4. Provide comprehensive evaluation, on a regular basis, of the investment results of the System's total portfolio and individual asset managers, in light of the investment guidelines and performance standards contained in this Policy. Such evaluation shall include comparisons to performance universes of other institutional separate accounts, including public pension funds, as well as performance, style and attribution analysis of all the System's portfolios and managers.
5. Notify the Board of changes in the structure, personnel, ownership, investment philosophy or process of investment managers serving the System and present a course of corrective action when necessary.
6. Conducting searches for investment managers and other service providers, as necessary.
7. Monitoring compliance with this Policy by all responsible parties.
8. Disclosing potential conflicts of interest as they become known.
9. Providing ad hoc investment research and other support as may be necessary to support the Board's educational and informational needs.
10. The investment consultant shall carry out its duties in a fiduciary manner.

VII. Responsibilities of the Investment Managers

A. Investment managers retained by the Board must be competent professional investment managers capable of prudently managing System assets. No managers will be retained who have not demonstrated by their record, experience, investment expertise and fiduciary responsibility, their capacity to undertake the mandate for which they are being considered. Therefore the managers must:
    1. Acknowledge in writing the acceptance of fiduciary duty with respect to System assets under the manager's control;
    2. Be currently registered and maintain registration as an investment advisor under the Investment Advisors Act of 1940, be a bank as defined by the Act, or be a multi-state insurance company qualified to perform investment management services;
    3. Provide the Board with proof of liability and fiduciary insurance coverage.

B. Unless otherwise approved on an exception basis and fully disclosed to the Board, investment managers shall not: custody assets under their control, execute trades through brokers affiliated with the investment manager or investment consultant, or otherwise pay any fees to the investment consultant.

C. Adherence to Statement of Investment Policy:

1. The investment managers shall respect and observe the specific limitations, guidelines, and philosophies expressed herein, or as expressed in any written addenda to this Policy, or manager instructions.
2. The investment managers' acceptance of the responsibility to manage assets of the System will constitute an acceptance of this Policy, affirming the belief that they are realistically capable of achieving the System's objectives within the guidelines and limitations stated herein.

D. Discretionary Authority:

1. Each investment manager will be responsible for making all investment decisions on a fully discretionary basis regarding all assets placed under its control and will be held accountable for achieving the investment objectives indicated. Such discretion shall include decisions to buy, hold, and sell securities in amounts and proportions that are reflective of the investment manager's current investment strategy and compatible with the System's investment guidelines.
2. The investment managers will construct and manage investment portfolios consistent with the investment philosophy, style and discipline for which they were retained. They will also execute trades and allocate brokerage commissions according to this Policy.

E. Communication:

1. Investment managers will keep the Board and investment consultant informed on a timely basis of: major changes in their investment outlook, investment strategy, asset allocation; significant changes in the ownership, organizational structure, financial condition, or professional staffing of the investment management firm or investment product utilized (including client service personnel); and other matters affecting their investment policies or philosophy.
2. Whenever investment managers believe that any particular guideline should be altered or deleted, it will be the investment manager's responsibility to initiate written communications with the Board expressing its views and recommendations.
3. Investment managers will meet with the Board at least annually at which time they shall review changes within the firm, review past investment performance and performance attribution, evaluate the current investment outlook, and discuss portfolio structure and any inherent or specific tactics (for example the significant over/under weighting of an economic sector relative to a market benchmark) in the portfolio as well as investment strategy with the Board. (See the Manager Presentation Addendum for more information).

F. Reporting:

1. The Board and investment consultant shall receive timely notices of transaction activities as may be required as well as quarterly performance reports, commission summaries, and reports on proxy voting.

2. In addition, any information needed to assist the Board in conducting their evaluation of the investment manager's performance as it relates to System assets will be presented on a timely basis.

G. Proxy Voting:

1. The Board, as part of its duties and responsibilities, has the right to vote any and all proxies solicited in connection with securities held by the System, but chooses to delegate to the investment manager the responsibility to vote any and all proxies. The investment manager has the responsibility to vote solely in the interest of the System's participants and to protect the value of the securities within the System. Investment managers shall keep accurate records with respect to proxy voting policy their voting of proxies. Investment managers shall forward to the Board on a regular basis a summarization of all proxy voting, including all instances where votes were cast against management, or where votes were cast against the manager's internal proxy voting policies, along with the manager's supporting rationale for each.
2. The Board hereby delegates all proxy voting to the investment managers.

H. Compliance with Appropriate State and Federal Laws:

1. The investment managers are responsible for strict compliance with the provisions of the state statutes, the city ordinances, and all other applicable state and federal laws, rules and regulations as they pertain to investment manager's duties and responsibilities as a fiduciary.
2. The investment managers shall acknowledge in writing their recognition and acceptance of full responsibility as a fiduciary under applicable federal or state law with regard to System assets.

I. Investment Transactions:

1. All transactions shall be completed on a best price, best execution basis.
2. Understanding that the investment managers, as fiduciaries, have the responsibility to execute every transaction in the best interest of the System, the Board reserves the right to set specific brokerage policies as follows:
    a. All active domestic equity managers shall manage the commissions paid by the System to not exceed a targeted <u>annual average</u> of three cents per share for large capitalization portfolios and four cents per share for small-mid capitalization portfolios. The Board shall review the commission costs on a quarterly basis. The average commission cost shall be formally reviewed by the Board with each manager during the manager's annual presentation to the Board.
    b. On a case-by-case basis, the Board may direct any manager not achieving the targeted per share average commission rate above to execute its trades through one or more commission recapture services selected by the Board.

VIII. <u>Responsibilities of Other Service Providers</u>

A. Custodian: The System shall retain a trust company or bank to act as custodian for the System's assets. The duties and responsibilities of such custodian shall include, but not be limited to the following:

1. The safekeeping of all System's assets under trust or custodial arrangement;
2. Provide the Board, investment consultant and managers a regular valuation, transaction listing, and accounting of System assets. Such valuation, listing, and accounting shall occur at least on a monthly basis.
3. Settle all purchases and sales of securities and other related transactions by the investment managers employed by the System.
4. Sweep all System accounts daily into a cash management account to ensure no System assets are left uninvested.
5. To properly make available and return all securities eligible to participate and loaned through the securities lending agent employed by the System.
6. Management of all uninvested cash and cash awaiting disbursement to the System's investment managers in liquid, safe, interest-bearing instruments.
7. To provide all other custodial services not mentioned above necessary for the efficient investment, custody and administration of System assets.

B. Actuary: The Board shall retain a qualified actuary who shall have, among others, the following duties and responsibilities:

1. Prepare an annual valuation of all the System's assets and liabilities. Such valuation shall be provided to the Board to determine the financial condition of the retirement plan and determine the contribution rate necessary to fully fund the plan.
2. Recommend to the Board adoption of certain assumptions including those concerning contribution rates, death, disability, withdrawal, retirement, and investment returns.
3. Compare forecasted assumptions against actual System experience.
4. Assist the investment consultant in the preparation of all asset-liability studies and specifically the analysis of the System's liabilities and plan provisions.
5. Provide guidance and perspective regarding special actuarial studies, experience studies, benefit changes and all things of an actuarial nature as may be required by the Board.

C. Legal Counsel: The Board shall retain a qualified attorney to represent the System in all legal matters and to provide such legal advice and insight as may be necessary.

IX. Investment Objectives

A. The broad investment objective of the System is to ensure over the life of the System that an adequate level of assets are available to fund the benefits payable to the System's participants and beneficiaries at the time they become payable. In meeting this objective, the Board seeks to achieve a high level of investment return consistent with a prudent level of portfolio risk.

B. In addition to A. above, another investment objective of the System is to earn a total rate of return after all expenses that equals or exceeds the actuarial investment return assumption. The Board, with help from the actuary and investment consultant, will use the System's asset allocation as the primary tool to achieve this objective. As this is a long-term projection and investments are subject to short-term volatility, the main investment focus of the Board towards the total System's assumed rate of return and that of each investment manager will be on performance relative to the appropriate asset class, mix of asset classes, and peer performance over relevant time periods. Each manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style, and add incremental value after costs.

C. Long-term growth of capital. It is recognized that short-term fluctuations may result in the loss of capital earned on occasion (i.e., negative rates of return). However, in the absence of contributions and withdrawals, the asset value of the System should grow over the long run and achieve the investment goals set out below.

D. Preservation of Purchasing Power. The preservation of purchasing power is another long-term investment objective for the System. Asset growth, exclusive of contributions and withdrawals, should exceed the rate of inflation (as measured by annual CPI) over the long term in order to preserve purchasing power of future benefits.

E. Investment Goals

1. Total Fund: It is expected that the System shall achieve an annualized total rate of return, net of fees, over a market cycle (generally 3-5 years) which:

   a. Meets or exceeds the annual actuarial investment return assumption (currently 7.00%);

      Note: The term "annualized total rate of return" used above and throughout this Policy, is defined as total rate of return, including all dividend and interest income and both realized and unrealized capital gains or losses, as measured on a compounded or time-weighted (geometric mean) basis. This does not include investment management fees, but does include transaction costs. For comparison purposes, performance will be reviewed gross of fees; however, for goal/objective evaluation purposes, performance will be reviewed net of fees.

b. Meet or exceed the return of a Policy Index, such index being composed of broad market benchmarks reflecting the Board's broad allocation across asset classes and shown on the Asset Allocation Addendum:

2. Investment Mangers:
   a. It is expected that each active investment manager shall achieve an annualized total rate of return, over a market cycle (generally 3-5 years) which exceeds a broad market benchmark, net of fees and ranks above median in a style peer performance universe. The broad market benchmarks are shown in each investment manager's Investment Instructions attached to this Policy.
   b. It is expected that each passive investment manager shall achieve an annualized total rate of return, gross of fees, that matches the underlying market benchmark.

X. <u>Asset Allocation</u>

A. The Board believes that the level of risk assumed in the System is a function, in large part, of the System's asset allocation. The proportion of assets allocated for equity investments is the most important determinant of volatility for future returns. As indicated by long-term historical data, the risk of equity ownership has been rewarded with a higher rate of return and is necessary in the current market environment to fully fund future liabilities.

B. The System's investments are invested in a diversified portfolio composed of equity securities (both domestic and international), fixed income securities, diversifying assets (such as real estate or alternative assets) and cash equivalent securities, and as such, are intended to be more aggressive than fixed income only portfolios and less aggressive than equity only portfolios. Aggressive refers to the tradeoff between risk and return.

C. Based on its determination of the appropriate risk posture for the System, and its long-term return expectations, the Board, along with the investment consultant and actuary, have established asset-mix guidelines for the System, based on market values. The System's asset allocation can be found under the Asset Allocation Addendum to this Policy.

D. The asset allocation is a strategic asset allocation. The long term target allocation percentage and permitted range for each asset class shall be based upon the most recent asset-liability study performed by the investment consultant, generally every 3-5 years, and as adopted by the Board. Both the target allocations and permitted ranges should be adhered to under normal circumstances. However, because the target allocations and permitted ranges are long term in nature, periodically the asset mix may fall outside the target or range. Dollar-cost-averaging, portfolio transition or other cases where the Board determines deviation from the target or range is in the best interest of the System are permitted exceptions. This in no way should be considered tactical asset allocation or market timing and is not viewed as such by the Board.

E. The Board, in conjunction with their investment consultant and actuary, are responsible for broad asset allocation decisions. A manager's cash holdings can disrupt this position and therefore should be limited to five percent (5%) of its portfolio market value. Therefore, each manager's portfolio is to be fully invested, although cash can be held briefly when a security is sold prior to reinvestment. The only exception to this will be when cash is used as part of a duration or term-structure strategy of a fixed income manager. This exception is consistent with the Board's decision to have managers avoid market-timing decisions stated above.

F. Rebalancing
   1. Until such time as the Board changes the broad asset class targets, a routine rebalancing of the various portfolios back to the target allocation shall be implemented as necessary. The first tool used to achieve this rebalancing shall be regular cash flows. After that, manager cash and portfolio liquidation shall be used.
   2. When market experience moves the portfolio allocation outside the permissible range at month end, the System's Staff will consider any necessary action to rebalance back to the target allocation. Priority of rebalancing shall be asset class before style or individual manager.
   3. Managers considered by the Board to be on a "watch list" for whatever reason, may be excluded from receiving additional assets in any rebalancing.

XI. Investment Guidelines

<u>Domestic Equity</u>

A. *Permissible Investments:* Unless given authorization in writing, domestic equity managers are allowed to invest only in separate accounts or commingled vehicles made up of the security types listed below:
   1. Domestic Common Stocks
   2. Domestic Preferred Stocks
   3. Convertible Preferred Stocks and Bonds
   4. Stock Index Futures
   5. American Depository Receipts
   6. Real Estate Investment Trusts
   7. Exchange Traded Funds
   8. Master Limited Partnerships (if specifically approved by the Board)

B. *Role in the Portfolio:* The principal purpose of equity investments is to provide capital appreciation over the long term. The low correlation between stocks and either bonds or cash equivalents also helps create a portfolio with acceptable volatility

C. *Restricted Investments– with the exception of the Hedge Fund portfolio, the following investments are restricted:*

1. Futures and option transactions (except those used for hedging purposes)
2. Letter stock
3. Short sales or margin transactions
4. Investments in commodities or commodity contracts
5. Unregistered securities and private placements (except those securities regulated by SEC Rule 144A)

D. *Limitations – with the exception of the Hedge Fund portfolio, the following limitations apply:*
1. Diversification: All equity portfolios should be well-diversified according to each manager's internal guidelines to avoid excessive exposure to any single economic sector, industry group, or individual security.
2. The overall equity portfolio should be diversified by style and capitalization also to avoid excessive risk.
3. Capitalization: Equity investments should be made in seasoned companies whose market capitalization is consistent with each manager's benchmark index.
4. Sector weighting: No equity portfolio, measured at market value, shall have an economic sector weighting which exceeds the greater of 30% or 2 times the sector weighting of the underlying benchmark.
5. Issue weighting: No single issue shall exceed 5% of the portfolio's market value at cost.
6. Investments in exchange traded funds (ETFs) are limited to those ETFs reflecting the manager's underlying benchmark index and are further limited to 5% of the manager's portfolio measured at market value.

E. *Investment Goals:* Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations:
1. The total return of the domestic equity composite after fees should exceed the total return of the Russell 3000 Index.

<u>Domestic Fixed Income</u>

A. *Permissible Investments*: Unless given authorization in writing, fixed income managers are allowed to invest only in separate accounts or commingled vehicles made up of the security types listed below:
1. U.S. Treasury and Agency Bills, Notes and Bonds, including Treasury Inflation Protected Securities (TIPS)
2. Corporate and Municipal Notes and Bonds
3. Mortgage-Backed Securities
4. Asset-Backed Securities
5. High Yield Securities
6. Convertible Securities
7. Cash-Equivalent Securities
8. Money Market Funds

B. *Role in the Portfolio*: The principal purpose of fixed income investments is to provide relative safety of principal and a predictable source of income.

C. *Restricted Investments– with the exception of the Hedge Fund portfolio, the following investments are restricted:*

1. Futures and option transactions (except as stated below and those used for hedging purposes)
2. Direct loans or extension lines of credit to any interested party
3. Private placement bonds or unregistered securities (except those securities regulated under SEC Rule 144A)
4. Non-U.S. Dollar bonds

D. *Limitations – with the exception of the Hedge Fund or High Yield portfolio, the following limitations apply:*

1. Unless expressly permitted by the Board, fixed income securities shall be limited to those with a rating of investment grade (BBB-/Baa3) or better. Investment managers shall immediately notify the Board of any investments that are downgraded below investment grade, provide a plan for holding or disposition, and report their status regularly.
2. Unless expressly permitted, the overall portfolio credit rating shall remain A or better at all times.
3. Investments in any one issuer (excluding obligations of the U.S. Government, either direct or implied) shall not exceed 5% of any fixed income portfolio's market value, unless otherwise authorized by the Board.
4. Without specific written permission by the Board, the effective duration of any fixed income portfolio shall not exceed 120% of the effective duration of the manager's broad market benchmark.
5. Collateralized mortgage obligations cannot be more sensitive to interest-rate changes than the underlying mortgage-backed security.

E. On an opportunistic basis and only after express written permission by the Board, the following exceptions to the Restricted Investments and Limitations stated above may be permitted:

1. Below investment grade credits rated BB,B.
2. Non U.S. Dollar bonds and emerging market debt.
3. The aggregate of 1 and 2 above shall not exceed 20% of the manager's portfolio.
4. Interest rate futures used to adjust portfolio duration.

F. *Investment Goals:* Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations:

1. The total return of the fixed income composite after fees should exceed the total return of the Lehman Brothers Aggregate Bond Index.

International Equity

A. *Permissible Investments:* Unless given authorization in writing, international equity managers are allowed to invest only in separate accounts or commingled vehicles made up of the security types listed below:
   1. Common and preferred stocks issued by non-U.S. corporations domiciled in developed countries.
   2. Forward foreign currency exchange contracts for hedging purposes.
   3. American and Global Depository Receipts.
   4. Emerging market exposure shall not exceed 25% of any developed market manager's portfolio.
   5. The same issuer, sector and capitalization restrictions contained in the domestic equity guidelines shall apply.
   6. Units of commingled or mutual funds investing in substantially the same permissible investments.

B. *Role in the Portfolio:* The principal purpose of international equity investments is to provide diversification. A low correlation to both domestic equity and bonds creates reduced portfolio volatility.

C. *Restricted Investments – with the exception of the Hedge Fund portfolio, the following investments are restricted:*
   A. Futures, option and currency transactions (except those used for defensive currency hedging purposes or those shown below)
   B. Any investment restricted by the domestic equity restrictions provisions.

D. *Limitations – with the exception of the Hedge Fund portfolio, the following limitations apply:*
   1. Each portfolio will be diversified by country, economic sector, industry, number of issues held and other investment characteristics.
   2. Use of derivatives such as options and futures to establish unleveraged long positions is permissible.
   3. Net short foreign currency positions may not be taken.
   4. Currency management is at the discretion of each manager.

E. *Investment Goals:* Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations:
   1. The total return of the international equity composite after fees should exceed the total return of the MSCI EAFE Index.

Global Fixed Income

A. *Permissible Investments:* Unless given authorization in writing, global fixed income managers are allowed to invest only in separate accounts or commingled vehicles made up of the security types listed below in both developed and emerging markets:

1. All permissible domestic fixed income investments.
2. Obligations of foreign governments and agencies.
3. Foreign corporate bonds, rated investment grade.
4. Foreign money markets.

B. *Role in the Portfolio*: The principal purpose of global bond portfolios is to provide diversification and access to higher yielding markets. A low correlation to equities creates reduced portfolio volatility, and higher yielding markets can produce higher income..

C. *Restricted Investments– with the exception of the Hedge Fund portfolio, the following investments are restricted*:
   1. Futures, options and currency contracts (except those used for defensive currency hedging).
   2. Below investment grade securities.

D. *Limitations – with the exception of the Hedge Fund portfolio, the following limitations apply:*
   5. Each portfolio will be diversified by country, economic sector, industry, number of issues held and other investment characteristics.
   6. Use of derivatives such as options and futures to establish unleveraged long positions is permissible.
   7. Net short foreign currency positions may not be taken.
   8. Currency management is at the discretion of each manager.

E. *Investment Goals:* Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations:
   1. The total return of the international fixed income composite after fees should exceed the total return of the Barclays Capital Global Index.

<u>Real Estate and Other Real Assets</u>

A. *Permissible Investments*: Unless given authorization in writing, investments in real estate shall be made only in discretionary commingled vehicles such as: insurance company separate accounts, open-end or closed-end funds, group annuity contracts, limited partnerships, and real estate investment trusts (REITS) holding either leveraged or unleveraged positions in real property and real property related assets, representing both debt and equity interests

B. *Role in the Portfolio*: The purpose of the real estate in the portfolio (whether equity real estate or fixed income real estate or balanced) is to enhance the overall investment portfolio's expected return primarily though steady streams of income and/or reduce the overall volatility primarily through low correlation with other asset classes.

C. *Limitations and Restrictions*:

1. Investment managers should be registered as Investment Advisers under the Investment Advisers Act of 1940 and/or be a Qualified Professional Asset Manager.
2. Core diversified vehicles are expected to:
   a. Produce a minimum total rate of return of 7% over rolling five-year periods.
   b. All be of institutional investment quality as evidenced by a precedent of institutional investment in similar assets; expert analysis supporting the economic viability of the market; high quality construction features; and a current or potentially competitive position within the property's immediate market area.
   c. Be diversified by property type (having exposure across at least apartment, industrial, retail, office) and geographic location.
   d. Have leverage limited to only non-recourse debt secured solely by the property being acquired, refinanced or improved with such debt, and generally shall not exceed 35% of the total fund value
   e. Be invested primarily in existing properties that:
      i. Demonstrate predictable income flows with a high proportion of total return arising from current income;
      ii. Are located in economically diversified metropolitan areas;
      iii. Have credit quality tenants and a staggered lease maturity schedule; and
      iv. Has a reasonable assurance of a broad pool of potential purchasers at disposition.
3. Value Added or Specialty real estate investments are expected to:
   a. Produce a minimum total rate of return of 11% over rolling five-year periods.
   b. Be of institutional investment quality as evidenced by a precedent of institutional investment in similar assets or prior funds; expert analysis supporting the economic viability of the market or investment; and offer a viable value-added potential through one or more proven strategies.
   c. Be diversified by property type and geography, unless dedicated to a specific property type or part of the country, e.g. a multifamily housing only fund; but such property-type diversification may be less than that offered by a Core Fund since the value-added opportunity is one of the economic drivers of return.
   d. Have leverage limited to only non-recourse debt secured solely by the property being acquired, refinanced or improved with such debt, and generally shall not exceed 75% of the total fund value.
   e. Be invested in investments that may exhibit the following features or characteristics:
      i. Properties located in secondary and tertiary markets, which are not economically diversified and may have accompanying susceptibility to imbalances of demand and supply.
      ii. In addition to Core property types, property types including hotels, motels, senior housing and residential housing which

require specialized management skills focusing primarily on operating business expertise rather than pure real estate management expertise.

iii. Properties which require acquisition and disposition expertise.
iv. Properties which are considered to be in a "work out" mode.
v. Properties involving significant appreciation, repositioning. lease-up, development and/or re-development risks.
vi. Strategies using specific property type (sector) or geographic allocation, or both.
vii. Financing or investment structures that impact cash flows and/or require additional administrative expertise.

4. Other Real Asset Investments:

a. Master Limited Partnerships (MLPs) investments are permissible and are expected to:
   i. Over rolling 5-year periods, the MLP portfolio in aggregate is expected to exceed the return of the S&P MLP Total Return Index + 2% over similar periods.
   ii. Both active and passive management approaches are permissible.
   iii. Unless expressly permitted by the Board, MLP portfolios shall be comprised primarily of investments in domestic midstream or energy infrastructure, MLPs publicly traded on U.S. equity exchanges, including domestic energy-related exchange traded funds (ETFs).
   iv. In the event an Investment Manager owns a firm-wide basis greater than 5% of all the outstanding voting shares of any MLP which the Investment Manager holds in the System's portfolio, the Investment Manager will notify the Board of such level of ownership and continue to keep the Board informed as to the level of ownership as part of its regular quarterly reporting process.
   v. Unless expressly permitted by the Board, the use of leverage, short selling, and the use of options, futures or swaps is not permitted.

Hedge Funds

A. *Permissible Investments:*

1. In order to build a diversified program of hedge fund managers, each using different strategies, fund of funds vehicles ("Fund") will be used. These are either separate or commingled accounts managed by a fund of funds manager ("Investment Manager"). Although fees charged by the Fund and Investment Manager are possibly higher than those charged by long-only equity managers, the Board believes using the fund of funds vehicle is currently the most attractive option for achieving diversified hedge fund exposure due to: the diversification of strategies and managers;

the Investment Manager's expertise in the due diligence process of evaluating, hiring, firing, and monitoring individual hedge funds; and establishing the target allocation, as well as rebalancing between strategies and managers. The Investment Manager is solely responsible for selection of the underlying hedging strategies, allocation among strategies, the hiring and firing of managers who carry out those strategies and monitoring underlying managers and their investments. The Board shall establish investment guidelines for the hedge fund portfolio in aggregate and shall select Investment Managers to achieve the stated objectives.

2. The Investment Manager shall be an investment fiduciary to the Plan and be a registered investment advisor under the Investment Advisers Act of 1940.
3. Preference shall be given to those Investment Managers who commit a significant amount of their capital together with the Plan in the Fund.
4. The underlying hedge fund managers contained within the Fund shall employ a variety of skill-based and generally proprietary strategies. All strategies are permitted and are generally defined as Relative Value strategies (equity market neutral, convertible arbitrage, and fixed income arbitrage); Event-Driven strategies (merger arbitrage and distressed securities); and Opportunistic strategies (long/short equity, short-biased, and global macro).
5. Short-term strategies, especially trading-based strategies, may also be used by the underlying managers in the Fund. Accordingly, the following is permitted: short sales of securities; purchase and sale of options, commodities, futures and private placements, all types of publicly-traded securities and currencies; and the use of leverage and derivatives. Further definition of permissible strategies is contained in the Investment Manager's Instructions.

B. *Role in the Portfolio:* The long-term role of hedge funds as an asset class in the overall portfolio is to improve the risk-adjusted return of the overall portfolio by reducing market risk, providing low correlation with traditional asset classes, and providing consistently positive absolute returns. The role of hedge funds is to provide a fixed income surrogate, offering returns commensurate with volatility of 4-6%. Strategies employed by hedge fund managers in aggregate should emphasize low correlation relative to publicly traded stock and bond markets.

C. *Restricted Investments:*

1. The Board's investment in any single fund of hedge funds vehicle shall not exceed 10% of the market value of that vehicle (which includes all the Investment Manager's strategies which are substantially similar to the vehicle or fund utilized by the Board).
2. Each Fund shall be diversified according to each Investment Manager's internal policies regarding permissible strategies, asset classes, and risk management (strategy concentration, manager concentration, sector or industry exposure and level of leverage). Accordingly, at the composite level, no limitations are imposed on exposure to any single: strategy,

economic or industry sector, hedge fund manager, use of derivatives, or use of leverage within strategies. However, each Investment Manager is responsible for managing these exposures and their accompanying risks and shall outline such limitations contained within their internal policy which shall be enumerated in their Investment Manager Instructions.

3. Financial leverage at the fund of funds level is prohibited, unless specifically permitted by the Board. Leverage at the manager or strategy level shall be fully disclosed and regularly updated.
4. Lock-up periods shall not exceed one year. Thereafter, quarterly liquidity is preferred.
5. In the event any Investment Manager invests any Plan assets in any hedge fund, strategy or manager in which the Investment Manager has an ownership interest, stands to materially benefit from or present the Board with a conflict of interest, such investment shall be fully disclosed to the Board by the Investment Manager in advance whenever possible.

D. *Investment Goals*: It is expected that the hedge fund composite (the aggregation of all hedge funds employed by the Board) should outperform LIBOR + 4% , net of fees, over rolling 3-5 year periods with 4-6% standard deviation of returns over similar periods. Where possible, peer comparisons will be made using statistically valid performance universe(s) such as the Hedge Fund Research (HFR) with the expectation that performance will rank above median over rolling 3-5 year periods.

<u>Commingled Funds</u>

The Board of Trustees of the Retirement System may invest in commingled vehicles such as mutual funds or common (group) trust funds, group annuity contracts or limited partnerships which are institutional in nature (e. g., without loads, 12b-1 fees, open only to institutional investors) invested in substantially the same manner and same investments as are permitted by this Investment Policy and the associated Portfolio Guidelines. However, when utilizing such a commingled vehicle, the Retirement System’s portfolio will be managed according to the fund’s prospectus, trust document, contract, agreement or subscription documents (collectively Documents) and said Documents shall be considered and are hereby adopted as a part of the Retirement System’s Investment Policy and plan documents for the purposes of compliance with Revenue Ruling 81-100 and Section 401(a) of the Internal Revenue Code. In the event of any conflict between such Documents and this Investment Policy and/or its associated Portfolio Guidelines, the Documents will control and the areas of conflict will be outlined in detail by the investment manager to the Board of Trustees of the Retirement System. In addition, the Retirement System’s investment consultant shall advise the Board of Trustees of the Retirement System whether or not such differences are reasonable. The investment manager shall immediately notify the Board of Trustees of the Retirement System of any change or amendment to the Documents or the investment guidelines thereto.

XII. Review and Evaluation

A. Investment performance shall be measured on at least a quarterly basis. Performance benchmarks shall include those stated in the Investment Goals section above as well as comparisons to other public pension funds with similar market value and asset allocation.

B. Investment manager investment performance shall be measured on at least a quarterly basis. Performance benchmarks shall include those stated in the Investment Goals section above and any applicable manager instructions.

C. Investment performance will be compared using a statistically valid universe provided by the investment consultant as authorized by the Board.

D. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this Statement.

E. While the Board intends to fairly evaluate the portfolio performance, they reserve the right to change investment managers, without liability except payment of current charges, for any reason which in the exercise of the Board's discretion is deemed sufficient, including but not limited to those stated below.
   1. Change of Board's investment philosophy;
   2. Unacceptable justification for poor results;
   3. Failure to meet stated performance goals;
   4. Failure to meet Board's communication and reporting requirements;
   5. Deviation from the stated investment philosophy or style for which the investment management firm was hired; or
   6. Change of decision-making personnel or ownership of the investment management firm.

F. Investment managers' communication with the System and investment consultant:
   1. Provide portfolio valuation and transaction listings on at least a quarterly basis as shown in the Manager Reporting Addendum.
   2. Meet at least annually with the Board or its representative(s), or as requested by them.
   3. Communicate as outlined in this Policy regarding all other issues.

G. Board communication with investment managers:
   1. On a timely basis, the Board will provide the investment managers with changes to the Statement of Investment Policy.
   2. Meet regularly with the investment managers to:
      a. Review and discuss any modifications and changes to the System's investment objectives, goals and guidelines;
      b. Identify any significant anticipated changes in the System's cash flow or plan circumstances; and
      c. Any other matter which may bear upon the System's assets.

H. This Statement of Investment Policy as well as the System's circumstances shall be reviewed annually by the investment consultant with the Board and possibly revised periodically to ensure this Policy continues to reflect the Board's objectives, goals, philosophy, etc.

I. At least annually, the Board will review:

1. The actuary's valuation of System assets, liabilities and related information.
2. The System's asset allocation in light of the consultant's current capital markets assumptions.
3. Actual investment results to determine whether the System's asset allocation remains reasonable and each manager's decision making process remains consistent with the style and methodology for which the manager was originally retained.
4. The investment manager's proxy voting procedures and proxy voting records.
5. Commissions generated, commission rates charged and firms used by the investment managers to execute trades.
6. Manager fee schedules.

Amended March 10, 2011
Amended February 6, 2014

Asset Allocation Addendum to Statement of Investment Policy

Asset Class/Style	Target Allocation	Permitted Range
Large Cap Equity	**18%**	**13-23%**
Large Value	6%	1-11%
Large Core	6%	1-11%
Large Growth	6%	1-11%
Small-Mid Cap Equity	**8%**	**3-13%**
Small-Mid Value	4%	0-9%
Small-Mid Growth	4%	0-9%
International Equity	**24%**	**19-29%**
Developed Country Value or Core	12%	7-17%
Developed Country Growth or Core	5%	0-10%
Emerging Markets	7%	2-12%
Private Equity	**0%**	**0%**
Fixed Income	**25%**	**20-30%**
Core	5%	0-15%
Core Plus	20%	10-25%
Real Assets	**15%**	**10-20%**
Core Real Estate	5%	0-10%
Value-Added/Specialty Real Estate	5%	0-10%
Master Limited Partnership	5%	0-10%
Hedge Funds	**10%**	**5-15%**
Cash	**<1%**	**<10%**

Policy Index

Policy Index is currently comprised of 26% Russell 3000, 24% MSCI ACWI ex U.S., 25% Bloomberg Barclays Aggregate, 10% HFRI Fund of Funds Composite Index, 10% NCREIF Property Index, and 5% S&P MLP Total Return Index.

Operational Addendum to Statement of Investment Policy

Investment Advisor's Acceptance for the Firemen's Retirement System of St. Louis

The undersigned investment manager hereby acknowledges its appointment as a named fiduciary in accordance with the Advisory Agreement between the investment manager and the Board and agrees that this Statement of Investment Policy shall be incorporated as part of the investment manager's Advisory Agreement with the Board and shall be substituted for any previous Statement of Investment Policy, if any, agreed to by the Board and the investment manager.

If at any time the investment manager believes that the objectives and guidelines contained in this Statement of Investment Policy cannot be met or performed in strict compliance with this Statement, the investment manager agrees to promptly notify the Board in writing. In consideration of the investment manager's initial engagement by the Board and the investment manager's ongoing relationship as an investment advisor for the Board, the investment manager hereby acknowledges a complete understanding of these objectives and guidelines of this Statement and agrees to abide by each of said requirements during the course of the investment manager's engagement.

______________________________	______________________________
(INVESTMENT MANAGER SIGNATURE)	(DATE)
______________________________	______________________________
(PRINTED NAME)	(TITLE)
______________________________	
(FIRM NAME)	

Operational Addendum to Statement of Investment Policy

Securities Lending for the
Firemen's Retirement System of St. Louis

A. Overview

1. The Board has elected to participate in a securities lending program with the objective of offsetting administrative expenses and providing additional income to the Plan at a low level of risk. At any time the Board believes the risks inherent in lending the Plan's securities have increased to a point that the risk/return tradeoff is no longer acceptable, the securities lending program may be suspended.
2. The securities lending program will be implemented through the use of a qualified securities lending agent in an agency program, and shall comply in all respects with DOL PTCE 2006-16 or amendments thereto.
3. The lending agent shall be fully responsible for all aspects of the securities lending program, including: performing analysis for credit worthiness on all borrowers, negotiating terms of all security loans, lending securities, receiving collateral, investing collateral in a short-term interest fund, marking collateral to market, collecting and distributing all dividends and revenues, recalling securities, terminating loans, using collateral to purchase securities in the open market, and provide indemnification to the Plan for borrower default.
4. The securities lending program should not inhibit the portfolio management activities of the Plan's investment managers

B. Administrative Procedures

1. The lending agent shall maintain an adequate record keeping system. It shall maintain daily reports showing securities available for loan, outstanding loans by borrower and security, returned loans, transactions by account and all lending revenue.
2. The lending agent may lend the Plan's financial securities including U.S. and non-U.S. equities, corporate bonds, and government bonds.
3. Pursuant to borrower default indemnification, the lending agent shall have discretion over the selection, approval and monitoring of borrowers and therefore is responsible for determining the creditworthiness of borrowers, establishing individual credit limits for borrowers and ensuring credit and concentration limits are not exceeded.
4. Securities shall be loaned only after collateral is received or received simultaneous to the loan.
5. The lending agent shall receive and maintain collateral having a value not less than the applicable percentage of the market value of loaned securities required to comply with DOL PTCE 2006-16, and at no time less than 100% of the market value of loaned securities. In addition, the lending agent shall provide indemnification against borrower default.
6. All securities on loan and all securities standing as collateral shall be marked-to-market daily. Additional margin calls shall be made on a timely basis.

7. All loans of securities shall be fully collateralized by borrowers with cash, U.S.Treasuries and Agencies, commercial paper rated A1, P1 or equivalent, Certificates of Deposit, bank letters of credit or similar short-term, liquid securities.
8. The lending agent shall provide reports at least quarterly to the Executive Director (who shall distribute the reports to the , Board) and Investment Consultant.

C. Collateral Investment

1. Cash and other collateral allowed by the lending agent shall be invested in a liquid, short-term investment vehicle ("collateral investment pool") approved by the Board. The investment objectives of such collateral investment pool shall be preservation of principal and maintaining adequate liquidity for securities lending.
2. Acceptable investments for the collateral investment pool shall be governed by the pool's internal investment guidelines as contained in it's agreement, prospectus or trust documents and may include: U.S. Treasuries and Agencies and other government sponsored agencies, commercial paper, corporate bonds, mortgage and asset-backed securities, instruments of U.S. and foreign banks, supranational and sovereign debt obligations repurchase agreements, and shares of money market funds with similar guidelines.
3. In general, credit quality at purchase for securities with maturities of 13 months or less shall be A1, P1 and for longer maturities, A, as rated by a nationally recognized rating agency, or equivalent as determined by the lending agent.
4. The average effective duration of the collateral investment pool generally shall be 120 days or less.
5. The collateral investment pool shall be adequately diversified by issuer; in general the combined holdings issued by any single issuer shall not exceed 5% of the pool's market value, with the exception of U.S. Treasury and Agencies securities or securities of government sponsored agencies, repurchase agreements, and money market funds.

<u>Manager Reporting Addendum to Statement of Investment Policy</u>

For the
Firemen's Retirement System of St. Louis

A. **Monthly Reporting**

1. Investment managers must reconcile their accounting statements with those of the System's custodian bank on a monthly basis.
2. Investment managers must submit to the System's Staff on a monthly basis, reconciled accounting statements showing all assets at both cost and market value, all purchases and sales for the month and investment performance results for the month, quarter-to-date, year-to-date, trailing1, 3, 5 and 10 years (on a calendar quarter-end basis) and since inception.

B. **Quarterly Reporting**

1. Investment managers shall provide the Board, System, Staff and investment consultant a quarterly report detailing the following:
   a. The same information contained in A.2. above;
   b. A listing of all brokerage firms used for transactions that quarter and year-to-date along with size of trades as a percent of trades executed and commission cost of the trades;
   c. Change in personnel;
   d. Clients and assets gained/lost for the strategy utilized by the System;
   e. Proxy voting summary as detailed in the Policy;
   f. Market commentary for the quarter; and
   g. Summary of investment strategy going forward.

C. **Hedge Fund Reporting**

1. Each Investment Manager shall follow the provisions listed above for monthly and quarterly reporting at the funds of funds level, as may be applicable. In addition, the Investment Manager shall include the following in their quarterly written reports:
   a. Net asset value at the fund level;
   b. Investment performance at the fund level;
   c. Percentage of the Fund long, percentage of the fund short and net exposure;
   d. Allocation of the fund to all managers and strategies;
   e. Sector exposures;
   f. Volatility;
   g. List of all managers hired and fired during the quarter and level of turnover; and
   h. Level of financial or market leverage, such as borrowed cash or derivative exposure, utilized by the Investment Manager at the fund level.