

**St. Lucie County Fire District Firefighters' Retirement Fund**  
*Investment Policy Statement*

1. **SCOPE:** This Investment Policy shall apply to all funds under control of the Board.
2. **INVESTMENT OBJECTIVES:**
  - A. To obtain a reasonable total rate of return, defined as income plus realized and unrealized capital gains and losses, commensurate with the Prudent Man Rule.
  - B. To obtain reasonable consistency of returns judged over a three to five-year period.
  - C. Protection of capital against the erosion of inflation and wide swings in the value of assets.
  - D. To have the ability to pay all benefit and expense obligations when due.
  - E. To maintain sufficient funding for (a) unexpected developments, (b) possible future increases in benefits and/or (c) reduction in expected returns on investments or interest rate assumptions.
3. **PERFORMANCE MEASUREMENT:** The following performance measures shall be used as objective criteria for evaluating the effectiveness of the Investment Managers.
  - A. Total Fund Performance.
    - i. Achievement of an average annual rate of return over all four-year periods which achieves the actuarial earning assumption rate.
    - ii. Achievement of an average annual rate of return over all three and five-year rolling periods which achieves the Strategic Model (Section 4).
  - B. Equity Performance Three and Five-year Periods.
    - i. The domestic large-cap core equity manager is expected to achieve the returns of the S&P 500 index and rank in the top 50th percentile of an appropriate universe.
    - ii. The domestic large-cap value equity manager is expected to achieve the returns of the Russell 1000 value index and rank in the top 50th percentile of an appropriate universe.
    - iii. The domestic large-cap growth equity manager is expected to achieve the returns of the Russell 1000 growth index and rank in the top 50th percentile of an appropriate universe.
    - iv. Convertible securities portfolio is expected to achieve the returns of the Merrill Lynch Convertibles (VXAO) index and rank within the top 50th percentile of an appropriate investment manager universe.
    - v. The domestic mid-cap core equity manager is expected to achieve the returns of the S&P 400 mid-cap index and rank in the top 50th percentile of an appropriate universe.
    - vi. The domestic small-cap value equity manager is expected to achieve the returns of the Russell 2000 value index and rank in the top 50th percentile of an appropriate universe.

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- vii. The domestic small-cap growth equity manager is expected to achieve the returns of the Russell 2000 growth index and rank in the top 50th percentile of an appropriate universe.
  - viii. The international developed-market equity manager is expected to achieve the returns of the MSCI ACWI ex US index and rank in the top 50th percentile of an appropriate universe.
  - ix. The international emerging-market equity manager is expected to achieve investment returns of the MSCI Emerging market index and rank in the top 50th percentile of an appropriate universe.
  - x. The Infrastructure manager is expected to achieve the returns of the FTSE Global Core Infrastructure 50/50 Index and rank in the top 50th percentile of an appropriate universe (if available). The Master Limited Partnership (MLP) manager is expected to achieve the returns of the Alerian MLP index and rank in the top 50th percentile of an appropriate universe (if available).
- C. Bond Performance (short-term). The short-term bond portion of the portfolio is expected to achieve the returns of the Bloomberg Barclay's 1-5 Year Credit bond index and rank in the top 50th percentile of an appropriate universe.
- D. Bond Performance (investment grade). The investment grade bond portion of the portfolio is expected to achieve the returns of the Bloomberg Barclay's Intermediate Aggregate bond index and rank in the top 50th percentile of an appropriate universe.
- E. Bond High Yield. The high yield bond portion of the portfolio is expected to achieve the returns of the Bloomberg Barclay's high yield bond index and rank in the top 50th percentile of an appropriate universe.
- F. Bond Relative Value Trading Strategy. This strategy relies upon structured credits, non-agency residential mortgage-backed securities, credit-risk transfer securities, collateralized loan obligations, credit derivatives, and interest rate derivatives. This Strategy is not subject to quality guidelines or restrictions described in this Investment Policy Statement. Investment returns will be compared to the Bloomberg Barclay's Intermediate Aggregated Bond Index.
- G. Private Real Estate. The Private real estate manager is expected to achieve the returns of the Open-ended Diversified Core Equity (ODCE) index and rank in the top 50th percentile of an appropriate universe.
- H. Alternative Investments. The alternative manager is expected to achieve the returns of the CPI + 5% and/or the Barclays's Intermediate Aggregate bond index.
- I. Passive Strategies. At any time, the Fund can utilize passive investment strategies, and they are expected to perform at a rate similar to their corresponding benchmark less fees, with no more than an average variance at half of one percent (0.5%).

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**4. ASSET ALLOCATION AND REBALANCING – STRATEGIC MODEL**

<u>Investment Approach</u>	<u>% Target Allocation</u>	<u>Range</u>	
		<u>Min</u>	<u>Max</u>
Large cap equity	22.0	10.0	25.0
Mid-cap equity	12.0	5.0	15.0
Convertibles	12.0	5.0	15.0
Small-cap equity	8.0	5.0	12.0
International equity	10.0	5.0	25.0
Real estate (Private)	6.0	0.0	10.0
Infrastructure	4.0	0.0	8.0
<del>Fixed-income (ST bonds)</del>	<del>7.0</del>	<del>5.0</del>	<del>25.0</del>
Fixed-income (IG bonds)	8.0	5.0	65.0
Fixed-income (high yield)	5.0	0.0	8.0
Fixed (credit trading)	7.0	3.0	11.0
Alternative investments	5.0	0.0	10.0
Cash	1.0	0.0	20.0

Since market conditions will favor one approach over another, during 12 to 36-month time periods, the asset allocation will require periodic rebalancing. Because the long-term approach of the Plan is to achieve blended returns of separate asset classes, it is essential that relative weightings do not become over or under-allocated for long periods of time. **Accordingly, at least annually, the asset allocation of each category shall be reviewed and rebalanced, if necessary, under the direction of the investment consultant.**

**5. INVESTMENT AND FIDUCIARY STANDARDS:** In performing their investment duties, the Board, its Investment Managers, and Investment Consultant shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1104 (a) (1) (A)-(C). That is, they must discharge their duties with respect to the Plan solely in the interest of the participants and beneficiaries:

A. for the exclusive purpose of:

- i. providing benefits to participants and their beneficiaries; and
- ii. defraying reasonable expenses of administering the Plan;
- iii. with the care, skill, prudence, and diligence under the circumstance then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims;
- iv. and by diversifying the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

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**6. INVESTMENT GUIDELINES:**

- A. **Authorized Investments.** All investments made or held by the Fund are limited to the following:
- i. Cash equivalents.
  - ii. Obligations issued by the United States Government or obligations guaranteed as to principal and interest by the United States Government or by an agency of the United States Government.
  - iii. Bonds or other evidence of indebtedness issued or guaranteed by a corporation organized under the laws of the United States, or any state or organized territory of the United States, or the District of Columbia, provided:
    - a. Corporations are listed on one or more of the recognized national stock exchanges or on the NASDAQ stock market.
    - b. The fixed-income manager shall manage securities having an investment quality rating within the top four ratings by a major rating service. However, investments in fixed-income securities rated below investment grade shall be limited to a separate high yield mandate not to exceed 8% of the Fund, based on market value.
  - iv. Domestic equity investment (mutual funds, common stock, infrastructure, REITs, convertible bonds, convertible preferred issues and preferred stock) in a corporation listed on one or more of the recognized national exchanges or on the National Market System of the NASDAQ stock market or the OTC. Foreign issues are limited to those that settle in U.S. dollars and are traded on one or more recognized national exchanges, NASDAQ or the OTC. Convertible bonds, convertible synthetics, convertible preferred issues and preferred stock shall be deemed as equity and shall not be held to the rating standards of fixed-income. Foreign securities convertibles are limited to those that settle in U.S. dollars and traded on one or more of the recognized exchanges (incl. Canadian), NASDAQ or the OTC.
  - v. Real Estate Investment Trusts (REITs) that trade on a national exchange and diversified private real estate programs that offer quarterly valuations and liquidity.
  - vi. Infrastructure is limited to those with daily liquidity and pricing.
  - ~~vii. Commercial Mortgage Backed Securities that carry the AAA rating by two of the major rating services.~~
  - viii. Commingled products (Private Equity, Private Debt, Private Real Estate, Trusts and Mutual Funds) investing in products which meet these guidelines. When the Board invests in such product, and to the extent required by the Commingled Trust documents, the Fund's adopts and incorporates the Trust into the investment policy guidelines and appoints the Trustee of such commingled trust as the investment manager of such assets.

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**B. Limitations:**

- i. Equity investments (mutual funds, corporate common stocks, convertible bonds, convertible preferred issues, infrastructure and, REITS) shall not exceed 75% of the Fund assets at market. Foreign equity investments shall not exceed 25% of the Fund's assets at market.
- ii. Not more than five percent (5%) of the investment manager's portfolio (at market) shall be invested in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed five percent (5%) of the outstanding capital stock of that company. Alternative investments excluded.
- iii. There shall be no residential mortgages except for those guaranteed by the United States Government or Agencies of the United States Government.

**C. Prohibited Investments**

- i. Bonds issued by any state or municipality that are tax exempt
- ii. General obligations issued by a foreign government
- iii. Annuities
- iv. Internally managed assets
- v. Margin accounts
- vi. Under Protecting Florida's Investment Act (PFIA), scrutinized companies published by the State Board of Administration, unless an indirect investment is unable to divest, as provided for in Florida Statutes, section 215.473.

- 7. MATURITY AND LIQUIDITY REQUIREMENTS:** The Fund's investment manager(s) shall be kept informed of the liquidity requirements of the Fund. The investment portfolio shall be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.
- 8. PORTFOLIO COMPOSITION:** The Investment Guidelines establish parameters for investments and limits on security issues, issuers, and maturities. Said Guidelines are commensurate with the nature and size of the funds within control of the Board. The Board believes the Fund's return, risk and liquidity expectations are a function of asset allocation.
- 9. RISK AND DIVERSIFICATION:** The Investment Guidelines provide for appropriate diversification of the portfolio. The investments held by the Fund shall be diversified to the extent practical to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer, or bank which financial instruments are bought and sold. The Board recognizes the difficulty of achieving the Plan's investment objectives in light of uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered.
- 10. EXPECTED ANNUAL RATE OF RETURN:** For each actuarial valuation, the board shall determine the annual rate of return for the current year, for each of the next several years, and for

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the long term thereafter. This determination shall be filed promptly with the Department of Management Services and with the Plan's Sponsor and Actuary. The target rate of return is the actuarial assumed rate of return. The target rate of return is based on the assumption that future returns will approximate the long-term rates of return averages experienced for each asset class in the asset allocation. Because market performance varies, the desired rate of return may not be accomplished during some periods - the Board has established performance benchmarks for Managers, as set forth in Section 3.

**11. THIRD-PARTY CUSTODIAL AGREEMENTS:** All securities shall be held by a third-party custodian, and all securities purchased by and collateral obtained by the Fund shall be properly designated as an asset of the Fund. No withdrawal of assets, either in whole or in part, shall be made from safekeeping except by an authorized member of the Board or the Board's designee. Security transactions between a broker dealer and a custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the money or security, as appropriate, in hand at the conclusion of the transaction. The custodian shall apprise the Trustees of all transactions and shall forward all proxies to the manager within ten (10) calendar days. On a monthly basis, the custodian shall supply an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.

**12. MASTER REPURCHASE AGREEMENT:** All approved institutions and dealers transacting repurchase agreements shall execute and perform as stated in the Master Repurchase Agreement. All repurchase agreements transactions shall adhere to requirements of the Master Repurchase Agreement. This provision does not restrict or limit the terms of any such Master Repurchase Agreement.

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

**14. INTERNAL CONTROLS:**

A. The Plan shall be governed by a set of written internal controls and operational procedures, which shall be periodically reviewed by the Fund's certified public accountant (CPA). At the time of every financial audit, the CPA shall review the controls that should be designed to prevent loss of funds that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or the employees of the St. Lucie County Fire District.

B. In addition, the Board has adopted the following internal procedures for the selection and review of Investment Manager(s):

- i. Shall be an experienced professional team from a bank, insurance company, an investment company or investment adviser as defined by the Investment Adviser Act of 1940.
- ii. Have earned a three and five-year composite of performance ranking in the top 50th percentile of a nationally recognized universe.
- iii. Investment portfolio standard deviation no more than 120% of the benchmark.

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- iv. Performance results of each manager should rank in the top 50th percentile over three-year and five-year periods.

**15. INVESTMENT MANAGER DUTIES AND RESPONSIBILITIES:**

- A. Duties and Responsibilities of Investment Manager(s). The duties and responsibilities of each Investment Manager retained by the Board include:
  - i. Managing Plan assets under its care, custody, and/or control in accordance with this Investment Policy or in accordance with separate written agreements when the Board deems modification prudent and desirable.
  - ii. Exercising investment discretion (including holding cash equivalents as an alternative) within the objectives and guidelines set forth in this Investment Policy.
  - iii. Promptly informing the Board in writing regarding all significant and/or material matters and changes pertaining to the investment of Plan assets, including, but not limited to:
    - a. Investment Strategy
    - b. Portfolio Structure
    - c. Tactical Approaches
    - d. Ownership and Organizational Structure
    - e. Financial Condition
    - f. Professional Staff
    - g. Recommendations for Guideline Changes
    - h. All legal, SEC, and other proceedings affecting the Firm
  - iv. Timely voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Plan as set forth herein. Each Manager shall keep a detailed record of said proxy voting and related actions and will comply with all regulatory obligations related thereto. Reports of such voting and actions shall be delivered to the Board no less frequently than annually.
  - v. On a quarterly basis, the Investment Manager shall provide a written report affirming compliance with the security restrictions of Section 6 above and a summary of common stock diversification and attendant schedules. In addition, the Investment Manager shall deliver each quarter a report detailing the fund's performance, adherence to the investment policy, listing the quality ratings of each security, forecast of the market and economy, portfolio analysis and current assets of the Trust. Written reports shall be delivered to the Trustees within sixty (60) days of the end of each quarter. The Investment Manager will provide immediate written and telephone notice to the Trustees of any significant market related or no-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section 5 above.

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- vi. The Investment Manager will disclose any securities that are not in compliance with Section 6 in each quarterly report.
- vii. If the Fund owns securities, which complied with Section 6 at the time of purchase, which are subsequently down graded while held, the Investment Manager shall dispose of such securities when it is economically feasible.
- viii. Utilizing the same care, skill, prudence, and due diligence under the circumstances then prevailing the experienced investment professionals acting in like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance with all applicable laws, rules, and regulations from local, state, federal, and international political entities as they may pertain to fiduciary duties and responsibilities.
- ix. Acknowledging and agreeing in writing to their fiduciary responsibility fully to comply with the entire Investment Policy, as same may be modified from time to time.

**16. MONITORING INVESTMENT MANAGERS:**

- A. Quarterly performance will be evaluated to test progress toward the attainment of long-term targets. The Board understands that there may be short-term periods during which performance deviates from market indices. During such periods, greater emphasis shall be placed on peer performance comparison with managers employing similar styles. From time to time, but no less than quarterly, the Board will meet to focus on:
  - i. Manager's adherence to this Investment Policy
  - ii. Material changes in the Manager's organization or investment philosophy, and/or personnel.
  - iii. Comparisons of Manager's results to indices and peer groups, specifically.
  - iv. The Board is aware that ongoing review and analysis of the Investment Manager(s) is as important as the due diligence utilized during the manager selection process. Accordingly, a thorough review and analysis of the Investment Manager(s) shall be conducted if there are:
    - a. changes in senior investment personnel and ownership,
    - b. and/or significant loss of business.

**17. CONTINUING EDUCATION:** The Board acknowledges the importance of continuing education for the Trustees. The Trustees are encouraged to attend educational conferences in connection with their duties and responsibilities as Trustees. Each Trustee is encouraged to attend at least one continuing education seminar each year concerning matters related to investments and responsibilities of Board members.

**18. REPORTING:** The Board shall make available to the St. Lucie County Fire District all quarterly reports provided by the Consultant, Investment Managers and the Custodian Bank. Reports shall include investments in the portfolio by class or type, book value, income earned and market values as of the report date.



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- 19. FILING OF INVESTMENT POLICY:** Upon adoption by the Board, this Investment Policy shall be promptly filed with the Florida Department of Management Services, the plan's sponsor, and the consulting actuary. The effective date of the Investment Policy Statement and any amendments thereto, shall be the 31st calendar day following the filing date with the plan's sponsor.
- 20. VALUATION OF ILLIQUID INVESTMENTS:** Investments and assets for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism are prohibited.
- 21. FLORIDA STATUTES 112.661, 175 AND APPLICABLE ST. LUCIE COUNTY FIRE DISTRICT RESOLUTIONS:** If any portion of this Investment Policy Statement is found to be in conflict with Chapters 112.661 or 175 *Florida Statutes*, or any applicable Resolutions of the St. Lucie County Fire District, then the Statutes and Resolutions shall prevail.

***BOARD OF TRUSTEES***  
***ST. LUCIE COUNTY FIRE DISTRICT***  
***FIREFIGHTERS' RETIREMENT FUND***

***ATTEST:***

By: \_\_\_\_\_  
As: Chairman, Board of Trustees

By: \_\_\_\_\_  
As, \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

***BURGESS CHAMBERS & ASSOCIATES, INC.***

***ATTEST:***

By: \_\_\_\_\_  
As, Investment Consultant

By: \_\_\_\_\_  
As, \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_