# LAREDO FIREFIGHTERS RETIREMENT SYSTEM

Statement of Investment
Objectives & Policies

Adopted November 2001
Amended July 2005
Amended October 2005
Amended March 2006
Amended September 2010
Amended May 2013
Amended June 2015
Amended November 2017
Amended April 2020

**These investment policies are consistent with**
**Texas Public Fund's and TLFFRA's BEST PRACTICES.**
**These policies are necessary to become**
**Certified for Fiduciary Excellence - CEFEX.**

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## I. DESCRIPTION OF THE SYSTEM

The Laredo Firefighters Retirement System {the "System") is authorized as an independent defined benefit plan as described in Article 6243e., Vernon's Texas Civil Statutes, 45th Legislature 1937 to provide benefits for retired and disabled Laredo firefighters or their beneficiaries.

The Laredo Firefighters Retirement Board (the "Board") shall be the Trustees of the funds of the Laredo Firefighters Retirement System and shall have full power in its sole discretion to invest and reinvest, alter, and change such funds. The Board shall invest the funds in whatever instruments or investments the Board considers prudent. In making investments for the System, the Board shall discharge its duties:

1. For the exclusive purposes of:
   a. providing benefits to members and their beneficiaries; and
   b. defraying reasonable expenses of administering the "System";

2. With care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;

3. By diversifying the investments of the "System" to minimize the risk of large losses and maximize returns, unless under the circumstances it is clearly prudent to do so;

4. In accordance with the laws, documents, and instruments governing the "System";

5. In accordance with the Texas Local Firefighters' Retirement Act, as revised, Sections 27 and 28;

6. Maintain and manage the expected level of contributions. Investment results are the critical element in achieving the investment objectives, while reliance on contributions is a secondary element;

7. Keep as a goal a fully funded status with regard to current pension liabilities.

The System's contribution resources are from the City of Laredo and firefighters of the City of Laredo. The Laredo Firefighters Retirement Board of Trustees believes that the City of Laredo Firefighters' continued ability to meet actuarially required contribution levels is not in doubt.

The Board has reviewed the actuaries' prediction of expected future funding requirements and is satisfied that the "System's" investment policy is expected to deliver returns sufficient to ensure that future contributions will remain at an acceptable level relative to payroll.

## II. PURPOSE OF STATEMENT

This Statement of Investment Objectives and Policies (the "Statement") is intended to:

A. Outline in a written document the investment related responsibilities, expectations, objectives, and guidelines of the "System's" Staff, the Board of Trustees (Board) and the providers of investment services retained to assist with the management of the "System's" assets.

B. Establish formal yet flexible investment guidelines and investment structure for managing the "System's" assets; structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon, in order to incorporate prudent risk parameters, appropriate asset guidelines and realistic return goals.

C. Provide a framework for regular constructive communication between the "Board", the Staff, and the "System's" providers of investment services.

D. Providing rate-of-return and risk characteristics for each asset class represented by various investment options.

E. Provide rate-of-return and risk characteristics for the total portfolio. The desired investment objective is a long-term rate of return on assets that is at least 8.0%. The target rate of return for the Plan has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS. The Board realizes market performance varies and a rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the investment options are set forth in the "Monitoring" section.

F. Create standards of investment performance which are historically achievable and by which the Investment Managers agree to be measured over a reasonable and consistently applied time periods.

G. Establish formal criteria to select, monitor, evaluate, and compare the performance results achieved by each investment option on a regular basis.

H. It is expected that this Statement will be reviewed annually by the Investment Board to ensure the relevance of its contents to current capital market conditions and the needs of "the System".

## III. RESPONSIBILITIES - STAFF

A. Staff oversees the day-to-day review, recording, and reporting of invested assets in accordance with "the System's" policy and direction of the "Board".

B. Communicates with Custodian, investment consultants and all vendors to facilitate continuous and comprehensive management of the "System".

C. Coordinates with Consultant(s), Custodian(s), vendors, and the Board in between meetings. Results of these coordinated efforts include systematic portfolio re-balancing, generation of trade reconciliation and monthly financial statement reports.

D. Coordinates with Custodian(s} and the Board the dispersing of remuneration to vendors and beneficiary payments. Coordinates with Consultant(s) the "System's" annual report detailing all costs associated with the management of the Fund's investment program, including expenses, custody fees, Manager(s} fees, Consultant(s} fees, directed brokerage and soft dollar arrangements.

## IV. RESPONSIBILITIES - THE "BOARD"

The "Board" was created by resolution and is made up of seven Trustees. The "Board's" role is that of a representative of, and advisor to, the "System". Duties include the following:

A. Establish investment objectives consistent with the needs of the "System" and prepare the investment policies **{IPS}** of the "System".

B. Prudently select consultants, investment Managers and other services providers consistent with investment strategy.

C. Prudently diversify, select, and maintain a general investment strategy consistent with allocation ranges and investment guidelines including an agreed upon risk/ return profile.

D. Monitor investment, record keeping & administrative expenses associated with the plan.

E. Monitor and supervise all service vendors and the investment program with respect to each of the above points, recommending and implementing change as appropriate.

F. Establish asset allocation ranges and investment guidelines consistent with investment objectives.

G. Annually review investment policy and results.

H. Avoid prohibited transactions and conflicts of interest.

## V. RESPONSIBILITIES- INVESTMENT CONSULTANT(S)

The Investment Consultant(s) serve as objective, third-party professionals retained to assist the Board in managing the overall investment process. The Consultant(s) are responsible for guiding the Board through a disciplined and rigorous investment process to enable the Board to meet the fiduciary responsibilities outlined above. Investment Consultant(s) will act as co-fiduciary and assume the following responsibilities as they pertain to:

### A. STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

Assist the Board in the preparation and maintenance of the statement highlighting various policy issues affecting the "System" for consideration by the "Board". The statement should describe the responsibilities of all parties, specify the broad investment objectives of the "System", provide investment policy guidelines and set appropriate performance standards for all components of the asset structure of the "System".

1. Annually review investment policies and consider amendments as necessary.

2. Make recommendations, when deemed advisable, as to changes in the objectives, guidelines, or standards, based upon material and sustained changes in the capital markets.

### B. ASSET ALLOCATION

Make recommendations as to the appropriate target portfolio weightings among the various major asset classes (e.g., stocks, bonds, and cash) within the "System". These recommendations should be supported with materials including asset class performance expectations (risk, return and correlations) for broad and various asset classes within the "System". In the case of a multiple Managers, this recommendation will include a plan for periodic rebalancing of asset weightings and Manager weightings as capital market movements cause the actual weightings to diverge significantly from the target weightings.

**Rebalancing Plan of Strategic Allocation**

The percentage allocation to each asset and sub-asset class may vary depending upon market conditions. Please reference the allocation table below for the lower and upper limits for each peer group. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation below. If there are no cash flows, the allocation of the plan will be reviewed quarterly. If the Board judges cash flows to be insufficient to bring the plan within the target allocation ranges, Staff will provide the Board with report and Board shall decide whether to affect transactions to bring the allocation of plan assets within the threshold ranges.

| Asset Class | Strategic Allocation | Lower Limit | Upper Limit |
|---|---|---|---|
| Private Natural Resources | 2.50% | 0.00% | 5.00% |
| Public Natural Resources | 2.50% | 0.00% | 5.00% |
| International Emerging | 10.00% | 5.00% | 15.00% |
| International Developed | 12.00% | 8.00% | 18.00% |
| Large Cap Equities | 15.00% | 10.00% | 30.00% |
| Mid-Cap Equities | 8.00% | 5.00% | 15.00% |
| Small-Cap Equities | 10.00% | 7.50% | 17.50% |
| Diversifying Strategies | 15.00% | 10 .00% | 20.00% |
| Public Real Estate | 5.00% | 0.00% | 10.00% |
| Global Fixed Income | 20.00% | 10.00% | 30.00% |
| Money Market Taxable | 0.00% | 0.00% | 10.00% |

## C. SELECTION AND IMPLEMENTATION OF INVESTMENT MANAGERS

Consistent with TLFRRA statute, each investment option should be managed by: (i) a bank; (ii) an insurance company; (iii) a registered investment company (mutual fund); or (iv) a registered investment adviser.

Assist the "Board" through the selection process by identifying and screening candidates for appropriate portfolio and organizational characteristics. Attend formal presentations of finalists, if required. Perform due diligence checks. Help quantify the trade-offs between expected returns and risks among various alternatives. Gather and submit information as requested by the "Board".

The screening criteria include:

1. Inception Date: The investment must have at least a 3-year track history.
2. Manager Tenure: The investment Manager must have at least a 2-year track history (Most senior Manager’s tenure)
3. Assets: The investment must have at least $75 million under management. {Total across all share classes for funds/ETFs)
4. Composition: The investment's adherence to ts asset class should be at least 80% as indicated by statistical measurements including by not limited to $R^2$.
5. Style: The investment's style should match peers or sub-asset classes.
6. Prospectus Net Expense Ratio: The investment should be lower than the top 25th percentile (most expensive) of its peers.
7. Alpha: The investment should place in the top 50% relative to peers over five years,
8. Sharpe: The investment should place in the top 50% relative to peers over five years,

9. 1 Year Return: The investment should place in the top 50% of its peer group.
10. 3 Year Return: The investment should place in the top 50% of its peer group.
11. 5 Year Return: The investment should place in the top 50% of its peer group.

The Board may consider investment managers not meeting all the screening criteria. The Consultant(s) will provide the Board a written report on any manager not meeting the screening criteria.

D. **MONITOR INVESTMENT PERFORMANCE**

A performance evaluation report of the "System" and its investment component parts will be conducted quarterly. The Consultant(s) written report will cover five basic areas:

1. Returns and other performance metrics - Total time-weighted returns over specified short, intermediate and long term periods;

2. Comparisons - Returns will be compared to appropriate benchmark indices and a statistical universe of similar systems;

3. Diagnostics - Measurement of risk-adjusted performance, analyses of risks, style characteristics, and return attribution;

4. Compliance - Portfolios will be checked for compliance with the objectives, targets, and policy guidelines specified in this Statement; and

    a. The total returns of each asset class and the "System" will be compared to the distribution of returns represented by an appropriately balanced universe of similarly managed systems that are not subject to capital gains or income taxes.
    b. A quarterly report will be analyzed to ensure that each component employed by the "System" is ranked in the top 50% of the appropriately balanced universe over a five-year time period.

5. Monitor risk-adjusted performance and place investment option on a watch list for more thorough or ongoing review and analysis when it fails to meet aforementioned objective criteria.
    a. Each Manager's Sharpe Ratio should exceed its respective benchmark's Sharpe ratio for five year rolling time periods.

6. Monitor the diversification, quality, duration, and risk of fixed income holdings.

7. The Consultant(s) will review at least annually all costs associated with the management of the plan, including:
    a. Expense ratios of each Manager and/or mutual fund

b. Administrative fees: costs to administer the plan, including record keeping, custody, and trust services
c. The proper identification and accounting of all parties receiving soft dollars and/or 12b-1 fees generated by the plan

8. The Consultant(s) in consultation with the Board will meet to review each investment for:

   a. Adherence to the Watch List Criteria identified below;
   b. Material changes in the investment option 's organization, investment philosophy, and/or personnel; and
   c. Any legal and/or regulatory proceedings affecting the investment option's organization.

E. COMPENSATION NEGOTIATIONS

Consultant (s) will assist Staff and the Board in compensation negotiations with investment Managers, Custodians and other service providers. Fees paid to investment vendors should never be among the highest quartile relative to peers.

## VI. RESPONSIBILITIES - CUSTODIAN BANK(S)

The Custodian Bank(s) must assume the following responsibilities as they pertain to:

A. SAFEKEEPING OF SECURITIES

Hold all of the "System's" assets in the appropriate accounts and provide highly secure storage of physical stock certificates and bonds, such that there is essentially no risk of loss due to theft, fire, or accident. Electronic transfer records at the Depository Trust Company ("DTC") are preferred. If and when applicable, the Custodian is responsible to maintain separate accounts by legal registration.

B. SETTLEMENT OF TRADES

Arrange for timely and business-like settlement of all purchases and sales of individual securities made for the " System". Transactions shall be on a delivery versus payment basis unless provided for otherwise in writing by the "Board”. Receive and document confirmation of mutual and pooled fund transactions.

C. COLLECTION OF INCOME

Provide for receipt and prompt crediting of all dividend, interest and principal payments received as a result of the "System" portfolio holdings or securities lending activities. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct late or insufficient payments, including reimbursement for any interest lost due to tardiness or shortfall.

D. **CASH SWEEP**

Sweep cash daily into an interest bearing account featuring a high degree of safety of principal and liquidity.

E. REPORTING FOR SMAs, MUTUAL FUNDS AND COMMINGLED VEHICLES

Provide monthly reports showing individual asset holdings for public non-commingled or mutual fund holdings, providing periodic valuations and sufficient descriptive detail to include units, unit price, cost, market value, CUSIP number {where available), and any other information requested by the "Board". Provide monthly valuation estimates for all privately held assets and commingled investments. Principal cash transactions, including dividends, interest and principal payments received, deposits and withdrawals, securities purchased, sold/matured and fee payments will also be listed. Keep adequate records for the "System's" interest to be well represented in class action shareholder suits.

F. **TRANSFER**

At the direction of the individuals specifically appointed by the "Board", expeditiously transfer funds into and out of specified accounts.

G. PROXY MATERIALS

The Custodian Bank shall promptly forward all proxy materials received to the appropriate Investment Manager or their designee

VII. RESPONSIBILITIES-INVESTMENT MANAGERS

The Investment Managers must assume the following responsibilities as they pertain

to:

A. **INVESTMENT PROGRAM**

1. Acknowledge in writing acceptance of the objectives, guidelines, and standards of performance, and fiduciary status as defined in this Statement and invest the assets of the "System" in accordance with those objectives, guidelines and standards;

2. Exercise full discretionary authority as to all buy, hold and sell decisions for each security under management, subject to the guidelines as defined in this Statement; and

3. Make recommendations as to changes in this Statement based upon material and sustained changes in the capital markets.

B. **REPORTING**

For actively managed, separate accounts, produce a statement at the end of each month describing the portfolio asset class weightings, individual security positions showing both cost and market value, and all principal cash transactions, including all buys and sells in sufficient descriptive detail. For commingled assets, this statement should show unit position, unit value and relevant portfolio characteristics.

These reports shall include for comparison purposes, for each Manager or asset class, the performance of each Manager or asset class compared to the relevant Benchmark Index as described in Section XI.

Each Manager is required to inform the "System" in writing of any violations of self--dealing transactions that may arise as a result of the investment management activities on behalf of the "System". A list of the disqualified persons will be sent to the Manager annually. A list of disqualified persons and/or firms will be provided to the "Board" by the Consultant(s) no less than annually.

C. REVIEW MEETINGS

At the request of the "Board", but not less than once each year, each Investment Manager will participate in a due diligence review meeting, the agenda to include:

1. A review and re-appraisal of the investment program;
2. A commentary on investment results in light of the appropriate standards of performance;
3. Annually, a summary of these review meetings will be made available to the "Board".
4. A synopsis of the key investment decisions made by the Manager, his or her underlying rationale, and how those decisions could affect future results; and
5. A discussion of the Manager's outlook, what specific investment decisions this outlook may trigger and how these decisions could affect future results.

D. **COMMUNICATION**

Each Investment Manager is responsible for maintaining frequent and open communication with Staff and/or Consultant(s) on all material matters pertaining to investment policies and the management of "System's" assets. In particular, each Investment Manager will:

1. Provide notice of any material changes in its investment outlook, strategy, and portfolio structure; and

2. Provide notice of material changes in its firm ownership, organizational structure, financial condition, senior staffing and management, or substantial involvement in any litigation or regulatory investigation.

E. BROKERAGE

Selection of brokers is at the sole discretion of the Investment Manager. Each Investment Manager will use its best efforts to obtain brokerage services based upon consideration of the twin objectives of best execution of trades and the lowest net cost to the “System". At the request of the "System," but not less than annually, the Managers of any separately managed account will provide detailed soft dollar budgets, as well as summaries of all transactions, showing executing broker/dealer and commissions paid.

No investment Manager will execute trades through a brokerage subsidiary of the investment Manager, or through a brokerage firm held by a parent corporation or holding company with ownership ties to the investment Manager.

F. VOTING OF PROXIES

It shall be the policy of the Investment Managers to vote proxies for the exclusive benefit of the "System" in accordance with the procedures set forth below. The Investment Managers will use their best efforts to ensure that their proxy voting benefits the “System".

If any mutual or pooled funds used by the "System" have their own proxy voting policies, those policies shall be reviewed by the "Board" and shall take precedence over the rules in this Section. These guidelines shall govern any mutual or pooled funds that do not have their own proxy voting policies.

The procedures outlined below are designed to guide the Investment Managers in the voting of proxies. The Custodian Bank will forward all proxy materials to the appropriate Investment Manager or their designee. These proxies received by the Investment Manager will be designated as "Routine" or "Non-Routine”.

Routine Items are not expected to have a material adverse effect on the price of the security and will not substantially affect the rights or privileges of the security.

The Investment Manager will vote all Routine proxies received according to the management recommendation contained in the proxy statement.

Non-Routine Issues include such thing as:

1. Acquisitions, mergers and divestitures;

2. Significant changes in the company's articles of incorporation or by-laws, such as anti-takeover provisions, “poison pills" or "rights" issues;

3. Increases in the number of authorized common or preferred shares; and

4. Any unusual compensation or benefits to be awarded contingent upon the merger or acquisition of a particular company.

The Investment Manager shall research all Non-Routine issues and vote the "System's" shares with the "exclusive benefit” of beneficiaries in mind.

Should the Investment Managers have any questions on voting of Routine or Non-Routine Issues, they will confer with the "System's" Executive Director and/or Investment Consult ant(s).

The Investment Managers will keep summaries of their votes on all Non-Routine Issues, as well as document that all proxies are being voted. These summaries will be sent to the "Consultant(s)" at least semi-annually.

## VIII. INVESTMENT OBJECTIVES / RISK TOLERANCE

In order to meet its needs, the investment strategy of the “System” is to emphasize total return defined as the aggregate return from capital appreciation, dividend and interest income.

Over the investment horizon established in this statement, it is the goal of the "System" to achieve a rate of return of 8% over all rolling five-year periods. This investment goal is the objective of the aggregate "System", and is not meant to be imposed on each investment account or Manager. The goal of each investment Manager, over the investment horizon, will be to:

1. Meet or exceed the market index selected and agreed upon by the Trustees and each Manager, which index most closely corresponds to the style of investment management; and

Display an overall level of risk (volatility) in the portfolio which is consistent with the risk associated with the predefined designated benchmark. Risk will be measured by various risk measures including the beta, standard deviation, tracking error, and Sharpe Ratio.

Each Manager shall receive from Consultant(s) a written statement outlining their specific goals and constraints as they differ from, or are more specific than, those objectives of the entire "System."

## IX. ASSET ALLOCATION

| ASSETTYPE | TARGET | RANGE | |
|---|---|---|---|
| **U.S. Equities:** | **33.00%** | 23% | 63% |
| Large Cap | 15.00% | 10% | 30% |
| Mid Cap | 8.00% | 5% | 15% |
| Small Cap | 10.00% | 8% | 18% |
| **International (Developed) Equity** | **12.00%** | 8% | 18% |
| **International (Emerging) Equity** | **10.00%** | 5% | 15% |
| **Global Fixed Income** | **20.00%** | 10% | 30% |
| **Diversifying Strategies** | **15.00%** | 10% | 30% |
| Public Real Estate | 5% | 0% | 10% |
| Private Natural Resources | 2.50% | 0% | 5% |
| Public Natural Resources | 2.50% | 0% | 5% |
| Cash | 0% | 0% | 10% |

The above asset allocation implies a stylistic balance within each equity component (e.g. U.S. large, mid, and small cap equity and International equity) of the "System."

### A. REBALANCING POLICY

The target allocation will be maintained using cash flows to rebalance the split among asset classes and Investment Managers. If these cash flows are not sufficient to bring the split within acceptable ranges, on a quarterly basis where practical based on liquidity, "Board" may act on Consultant(s) recommendation. Staff will coordinate with Consultant and Custodian to re-balance the component weightings within their respective ranges.

## X. ASSET GUIDELINES

### A. EQUITIES

Diversification

No more than 8% of any investment Manager's portfolio at cost and 10% at the market value shall be invested in the securities of any one company.

1. Market Capitalization

   The permissible range of market capitalization of each component of the equity portfolio will be established upon discussion with the "System" and the Investment Manager.

2. Portfolio Turnover

   There shall be no specific guidelines with regard to portfolio activity. By not restricting turnover, the Investment Managers are given the flexibility to adjust its asset mix and security selection to changing market expectations.

3. Permissible Holdings

   a. Common stocks or American Depository Receipts (ADRs) listed on a major U.S. exchange.
   b. Common stocks traded through the NASDAQ.
   c. Securities convertible into common stock.
   d. Open or closed end mutual funds.

4. Holdings Not Permissible without the "Board's" prior approval

   a. Short sales that are outside the Manager's investment guidelines and strategy.
   b. Options, futures, forward contracts or other derivatives except where used to hedge the market value of non-dollar denominated securities into U.S. dollars, replicate a major market benchmark, or hedge the market value of an equity portfolio, as determined by an investment Manager's guidelines and/or strategy.
   c. Margin purchases or borrowing funds, or securities lending.
      Letter stock, private or direct placements.
   d. Securities of the Investment Manager/Custodian Bank, its parents or subsidiaries (excluding the Short-Term Investment Funds of the Custodian Bank or money market mutual funds).
   e. Any other securities not specifically defined as a Permissible Holding above.

B. FIXED INCOME ASSETS

1. Diversification

   No more than 10% of an Investment Manager's bond portfolio at cost shall be invested in the securities of any one issuer. There shall, however, be no such limit on U.S. Government securities U.S. Agency securities, or government sponsored entities, U.S Agency mortgage backed securities, or other sovereign issues rated "AA+". This bond diversification guideline is independent of the cash diversification guideline.

2. Permissible Holdings

a. Debt securities issued or guaranteed by the United States, or government sponsored entities.
b. Non-Agency and commercial mortgage-backed securities.
c. Corporate bonds, debentures and other forms of corporate debt obligations.
d. Asset-backed securities.
e. Indexed notes, floaters and other variable rate obligations.
f. Certificates of deposit ("CDs") and other money market instruments from banks also issuing bankers acceptances and with current commercial paper ratings of at least A-1 (by Standard & Poor's) or P-1 (by Moody's Investors Service).
g. Mutual funds (including commingled pools).
h. U.S. dollar and Non-dollar denominated debt securities issued by governments or supranational agencies such as the World Bank.
i. Emerging market debt (up to 10% of the portfolio).

6. Holdings Requiring Prior Written Approval

Any category of fixed income security that is not listed above is not permissible for investment without the "System's" prior written approval.

D. CASH AND EQUIVALENTS

The cash portion of the "System" will be invested in a short term treasury notes or money market equivalent. Money held in the cash reserve shall be viewed as essentially riskless.

1. Maturity
No security will have more than two years to maturity at the time of purchase.

2. Quality
Any securities issued by the U.S. government are permissible.

E. COMMINGLED OR MUTUAL FUNDS

As the "System" cannot direct the particular investment policies of any commingled or mutual funds used in the "System's" investment structure, the broad guidelines outlined below will govern the selection and oversight of appropriate vehicles.

1. Personnel

The "System" will monitor the organizations providing investment management services to the funds, to ensure stability of personnel, thereby encouraging consistency of investment method.

2. Expenses

The "System" will monitor both management fees and administrative expenses, to ensure that expenses are within stated criteria. Each investment Manager's fees are expected to be lower than the top 25% percentile of peers.

3. Portfolio Characteristics

The "System" will establish expectations of each fund or pool's aggregate portfolio characteristics. Deviations from style and composition criteria will occasion a review of the fund's continued appropriateness.

## F. DIVERSIFYING STRATEGIES

1. Definition

"Diversifying Strategies ("DS") will refer to any investment or investment strategy that at its core is not a long-only portfolio of traditional equity or fixed income instrument s. The "System" recognizes that DS covers an enormous variety of non-traditional investments and investment strategies, spanning various levels of risk and return. The "System" will seek DS which are generally on the conservative end of the alternative strategy risk spectrum, and which offer significant diversification benefits to the "System's" investment program, with the goal of helping to lower the overall investment program's volatility of returns.

The "System" will generally invest in funds of funds vehicles, by which a single investment is pooled in a diversified program of DS which will be monitored by independent third-party Managers. This is expected to afford the "System's" portfolio of DS with immediate diversification as well as an added level of due diligence on individual DS Managers.

2. Diversification

The DS shall be invested in a broad array of alternative, non-traditional investment strategies including, but not limited to commodities and futures, distressed securities, short/long or both, international opportunities, relative value. No individual fund or DS investment Manager will comprise more than 15% of the total of any fund of fund portfolio. In multiple strategy portfolios, no single DS strategy will comprise more than 35% of the total fund of funds portfolio.

3. Liquidity

All DS investments must have at least yearly liquidity - the ability to make withdrawals from a diversified DS program at least once per year. Preference will be given to investment vehicles offering quarterly liquidity or better.

4. Appropriate Benchmark

DS will generally produce a return above the rate of return of the risk-free rate (T-bills). The "System" will generally use a floating target of T-bills + 7% (annualized), and appropriate sub-asset class benchmarks as appropriate.

5. Correlation of Returns with more Traditional Asset Classes

In addition to the expectation that the DS Fund of Funds will provide a high likelihood of positive absolute returns, it is expected that the Fund of Funds should generate returns that have low correlation with the equity and fixed income markets.

G. PRIVATE EQUITY

1. Definition

"Private Equity" will refer to any investment or investment strategy that at its core is not comprised of publicly traded equity or fixed income instruments. The "System" recognizes that Private Equity covers an enormous variety of non-traditional investments and investment strategies, spanning various levels of risk and return.

Private equity Managers are expected to manage assets in the style upon which they built their historical track record. Any significant deviation from the Manager's stated style will require written approval.

2. Diversification

The "System" may be invested in a broad array of private equity investment strategies including, but not limited to: traditional private equity, early and late stage venture capital, leveraged buyouts, mezzanine financings, distressed companies or securities, international opportunities, secondary opportunities. No individual private equity fund (excluding funds of private equity funds) will comprise more than 15% of the "System's" total private equity exposure on a fully funded basis. In multiple strategy portfolios, no single strategy will comprise more than 50% of the total Fund of Funds portfolio.

3. Liquidity

Once the "System" has committed assets to a private equity fund or fund of funds, the "System" will be unable to withdraw assets prior to termination of the partnership without significant loss of principal. In all cases, the "System" will try to avoid withdrawing from its limited partnership status (selling its stake in the partnership), unless there are specific prudent reasons to do so.

4. Appropriate Benchmark

The "System" will use a combination of absolute and relative benchmarks to gauge the performance of its private equity investments.

Given the high absolute risk of these strategies, the "System" expects to achieve an absolute return of T-bills+10% over a full market cycle, which may be 10-15 years for private equity investment s.

The performance of these investments will also be measured against private equity total return benchmarks, which are currently in their infancy and vintage year benchmarks.

H. OTHER ASSET CLASSES

Guidelines for investments in other asset classes may be established in the future by the "System".

XI. PERFORMANCE STANDARDS

A. **TIME HORIZON**

Progress of the "System", its components and the Investment Managers will be measured over a five year rolling period.

B. **BENCHMARK INDICES**

Each component asset class of the "System" is expected to outperform its appropriate "balanced" benchmark:

| Asset Class | Benchmark Index |
|---|---|
| U.S. Large Cap Stocks | S&P 500 Index |
| U.S. Mid Cap Stocks | Russell Mid Cap Index |
| U.S. Small Cap Stocks | Russell 2000 Index |
| Non-U.S. Developed Stocks | MSCI EAFE Index |
| Non-U.S. Emerging Stocks | MSCI Emerging Markets Index |
| Fixed Income - Core | Bloomberg / Barclays Aggregate Bond Index |
| Diversifying Strategies | HFRI Fund of Funds Index |
| Energy Infrastructure | Alerian MLP Index |
| Commodities | BB Commodity Index |
| Real Estate | FSTE NAREIT All Equity Index |

The "System's" investment Managers will be compared to "style specific" indices. The following table summarizes the quantitative performance objectives for the active Managers. Any passively managed product will be expected to approximate the total return of its respective benchmark.

Betas will be calculated versus the appropriate benchmark index.

| MANAGER/CLASS | PRIMARY INDEX | RISK MEASURE | PEER UNIVERSE |
|---|---|---|---|
| **EQUITY** | | | |
| Large Cap Equity | S&P 500 | 1.2x Beta | Top 50% |
| Mid Cap Growth | Russell Mid Cap Growth | 1.2x Beta | Top 50% |
| Mid Cap Value | Russell Mid Cap Value | 1.2x Beta | Top 50% |
| Small Cap Growth | Russell 2000 Growth | 1.2x Beta | Top 50% |
| Small Cap Value | Russell 2000 Value | 1.2x Beta | Top 50% |
| International Developed | MSCI EAFE | 1. 2x Beta | Top 50% |
| International Emerging | MSCI Emerging Markets | 1.2x Beta | Top 50% |
| **FIXED INCOME** | | | |
| Core Fixed Income | Bloomberg / Barclays Aggregate | +/-20% duration | Top 50% |
| **REAL ASSETS** | | | |
| Real Estate | FTSE NAREIT All Equity Index | | Top 50% |
| Commodities | BB Commodities | | Top 50% |
| Energy Infrastructure | Alerian MLP | | Top 50% |
| **DIVERSIFYING STRATEGIES** | | | |
| Absolute Return | HFRI Fund of Funds | | Top 50% |

Managers failing to meet these criteria over the predefined specified criteria and time periods will undergo extensive qualitative and quantitative analysis. This analysis will focus on the Manager's personnel, philosophy, portfolio characteristics, and peer group performance to determine whether the Manager is capable of implementing their defined portion of the overall portfolio structure.

C. STATISTICAL UNIVERSE OF SIMILAR SYSTEMS

The total returns of each asset class and the "System" will be compared to the distribution of returns represented by an appropriate and statistically valid Universe of similarly managed systems that are not subject to capital gains or income taxes. Over the predefined specified time period, each component employed by the "System" is expected to rank in the top 50% of the appropriate Universe.

Consultant will provide quarterly monitoring report.

D. RISK-ADJUSTED PERFORMANCE

The Sharpe Ratio divides the excess return (portfolio return less risk-free return) by the standard deviation of quarterly total returns of total return, and will be the measure of risk-adjusted performance. Over predefined specified time period, the Sharpe Ratios for each component employed by the "System" is expected to exceed predefined criteria.

E. **DIVERSIFICATION REPORT**

Provide evidence that concentration guidelines are fulfilled.

## XII. AUTOMATIC REVIEW PROCESS FOR INVESTMENT FUNDS

Investment performance reviews of all portfolios will be conducted at least quarterly to ascertain progress against the return objectives of each component and at any time a formal review may be requested of any Manager. The quarterly reports cover four basic areas: returns, comparisons of returns to benchmarks and a statistical universe of similar portfolios, diagnostic risk analyses, and compliance with relevant policies and objectives and risk-adjusted performance.

Beyond these customary reviews, certain circumstances or events, as outlined below, will trigger automatic formal reviews and where appropriate, reconsideration by “the System" of the appropriateness of continuing to use the affected Manager in the investment structure. None of these circumstances or events shall serve as automatic causes for changing investment Managers, but will merely indicate the need for review.

A. DISAPPOINTING RELATIVE PERFORMANCE

1. Percentile ranking of portfolio's five-year cumulative return against peer group is below median;
2. Percentile ranking of portfolio’s one-year return against peer group is at or below 50; and

B. **DISAPPOINTING RISK-ADJUSTED PERFORMANCE**

1. Sharpe: The investment must place in the top 50% relative to peers over five years {5yr)

C. **FUND MANAGEMENT ORGANIZATION CHANGES**

1. Turnover of portfolio Manager or other personnel significant to the portfolio management process;
2. Ownership change; and

3. Involvement in relevant regulatory investigation or litigation

D. DEVIATION FROM INVESTMENT METHODS THAT BUILT HISTORICAL RECORDS

1. Aggregate assets in product are insufficient to ensure broad diversification, efficient trading, and economies of scale;
2. Assets in product either fall or grow too large to be managed in manner similar to methods that built historical record;
3. Portfolio characteristics do not match stylistic expectations; and
4. Significant increase in fees

E. RELATIVE PERFORMANCE IN EXCESS OF EXPECTATIONS

1. Percentile ranking of portfolio's five-year cumulative return is in the upper quintile (above the 20th percentile);
2. Percentile ranking of portfolio's quarterly return versus peer portfolios is in the upper decile (above the 10th percentile)

In the event that a review is required, the "Board" in consultation with a Consultant(s) will evaluate the Manager in question and determine the appropriate course of action. With the assistance of the Consultant(s), the "Board" may draw one of four conclusions:

- Satisfied with Explanation - Continue to monitor the Manager quarterly. The Board is content with the results of the investment Manager review.

- Place Manager on Watch List - The investment Manager is put on a watch- list to be scrutinized quarterly for one year, at which time the investment Consultant(s) will reevaluate the investment Manager and make a recommendation to upgrade or downgrade the Manager.

- Formal Review - Place the Manager on formal review. The investment Manager should be notified of the "Board's" concerns and asked to present at the next available investment Board meeting. The "Board," in conjunction with input from the investment Consultant(s) will then recommend to terminate the relationship, put the Manager on the Watch List to be scrutinized quarterly, or continue to monitor the investment Manager.

- Terminate - Terminate the relationship with the investment Manager as soon as possible.

Independent of the aforementioned review process, the "Board" retains the right to terminate a relationship with an investment Manager at any time, subject to the investment Manager agreement.

This document, approved by the Laredo Firefighters Retirement System Board in April 2020, replaces any previous document in existence.

By: ______________________________________________________

(Name)

Signature: ______________________________________________________

Title: **Chairman of the Board of Trustees**

Date: ______________________________________________________