# STATEMENT OF INVESTMENT POLICY
## For City of Alexandria Firefighters and Police Officers Pension Plan

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| Date of Changes to the Investment Policy | Purpose of Changes to the Investment Policy |
|---|---|
| 01/14/2016 | Update Addendum 1 to reflect adopted asset allocation |
| 6/13/2013 | Update liquidity section to include more detail |
| 10/13/2011 | Rebalancing ranges set in Addendum 1. |
| 9/8/2011 | Manager specific guidelines, and Rebalancing limits in Addendum 1. |
| 6/17/2010 | Pooling of pension and disability components |
| 10/15/2009 | Timber added to target allocation (pension) |
| 5/27/2009 | Private equity added to target allocation (pension) |
| 11/25/2008 | Add international to disability component |
| 9/5/2007 | Target weightings changed |
| 11/11/2005 | Original document |

## I. Statement of Purpose

The investment management of the City of Alexandria Firefighters and Police Officers Pension Plan (the "Plan) shall follow this Statement of Investment Policy and Guidelines as approved November 11, 2005, and most recently amended January 14, 2016.

City Code Section 2-5-51 authorizes the establishment of this Plan. Statutory authority for the investment program of this Plan is provided by the Code of Virginia §51.1-803. These Policy and Guidelines apply only to beneficiaries covered under the City of Alexandria Firefighters and Police Officers Pension Plan. This Statement of Investment Policy and Guidelines shall be reviewed annually, but may be amended at any time.

### A. Objectives

The Plan has three components: Defined Benefit, Disability, and Defined Contribution. Until May 2010 the Disability and Pension components were operated separately. At the May 13, 2010 meeting steps were taken to pool the assets for investment purposes. Under the existing plan document the assets of the Disability and Pension component may be pooled for investment purposes but separate accounting is required. The transition is expected to take several months.

The objective of the Defined Benefit and Disability components is to preserve the actuarial soundness of each Plan in order to meet contractual benefit obligations.

The objective of the Defined Benefit and Disability components is to maximize investment return given an acceptable level of risk.

The objective of the Defined Contribution component is to help beneficiaries save for retirement by enabling them to construct portfolios that will achieve an acceptable level of return while minimizing risk through diversification.

**B. Fiduciary Standards**

In striving to attain these objectives, the Plan will be managed in a manner consistent with fiduciary standards, namely:

1. All transactions shall be in the sole interest of the participants and their beneficiaries, and

2. All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in an expert like capacity and familiar with such matters would use in conduct of an enterprise of like character and with the same aims, and

3. All entities dealing with the plan are required to disclose conflicts of interest as soon as they become apparent, in writing to the Board or as part of a public meeting when the problem becomes apparent.

The Board must strive to maintain both the reality and the public perception that its decisions are made solely for the benefit of plan members. All entities dealing with the Plan must conduct themselves in a manner worthy of the public trust, keeping in mind that the Plan is subject to public review and evaluation.

Members of the Board and those delegated with investment authority under this Policy, when acting in accordance with the written procedures in this Policy, shall be relieved of personal responsibility and liability in the management of the portfolio.

**C. Roles and Responsibilities**

All parties serving the Plan at the date of the original adoption of this Statement of Investment Policy and Guidelines have 60 days to be in compliance with its provisions, or to notify the Board in writing as to why they cannot be in compliance.

1. Retirement Board

   The Retirement Board (the "Board") has the responsibility of establishing and maintaining policies for all aspects of the Plan including:

- Setting of investment policy;
- Performing asset allocation for the defined benefit and disability components;
- Selecting, evaluating, monitoring, and replacing investment professionals for all components.

The Board will meet as often as needed but no less than quarterly. The Board may select other professionals to assist in its duties.

2. Plan Administrator

The City Manager of the City of Alexandria shall act as Plan Administrator (the "Administrator"). The Administrator shall be responsible for administering the Plan in accordance with the Plan Document and applicable law.

The City Manager may designate and appoint one or more persons or one or more committees (called an Administrative Committee) to perform specific administrative functions with respect to the administration of the Plan. The City Manager has delegated the responsibility to the Deputy City Manager to plan, organize, and administer the operations of the Plan under broad policy guidance from the Board and the Administrator. These operations include but are not limited to accounting and claims operation; administration of investments, attorneys, accountants, actuaries, consulting and other contracts; and select investment oversight.

3. Actuary

The Board will select an actuary to perform a valuation of the plan as often as needed but no less than annually.

4. Investment Consultant

The Board may engage an investment consultant. If the Board engages an investment consultant, the investment consultant will report directly to the Board.

The investment consultant will give an independent perspective on the Plan, help select custodians and investment managers, review asset allocation, and provide quarterly investment performance measurement.

The investment consultant is expected to attend meetings of the Board as needed but no less than quarterly, and to perform asset allocation studies as needed but no less than once every three to five years.

The investment consultant will acknowledge in writing that it is a fiduciary of the plan relative to the services it provides.

5. Custodian

The Custodian will hold all cash and securities. The Custodian will be responsible for maintaining records, providing fund accounting on a trade date basis, performance reporting, and other services as defined in its contract.

The Custodian may not engage in financial transactions related to the Plan that are based on written or oral instructions from any person other than the Board, or the Administrator acting on the Board's behalf.

The Custodian will acknowledge in writing that it is a fiduciary of the plan relative to the services it provides.

6. Investment Managers

In managing assets for the Plan, the Board may engage the services of investment managers. Investment managers buy and sell securities according to guidelines established for their particular asset class.

Investment managers are to acknowledge in writing that they are fiduciaries of the plan relative to the services they provide.

## II. Defined Benefit and Disability Components

The defined benefit and disability components (Defined Benefit Plans) may be considered together in terms of objectives, types of investments and performance measurement techniques. However, they may have different investment portfolios due to their different cash flow characteristics.

The Retirement Board has three tasks to accomplish in managing the Defined Benefit Plans: first, to adopt a realistic actuarial rate of return for the Plans; second, to recommend the level of contributions needed to keep the Plans financially sound; and third, to construct a portfolio that will have the potential of earning the actuarial rate of return with a high probability of success, and with as little volatility as possible.

The Board may hire an actuary and an Investment Consultant through the appropriate RFP process.

The Board shall exercise an appropriate level of due diligence with respect to all aspects of the investments in the Defined Benefit Plans: development of the asset allocation structure, selection of external investment managers, and the monitoring of investment performance.

The Board is aware that mutual funds and other commingled vehicles have separate guidelines and/or prospectuses. When employing such vehicles, the Board acknowledges that those separate guidelines and/or prospectuses shall supersede the guidelines that follow.

## A. Manager Responsibility

Managers of funds under the Defined Benefit Component must acknowledge fiduciary responsibility relative to their work with the plan. Managers shall be held to the prudent expert standard articulated in Section I.C.6. above.

## B. Plan Characteristics

In constructing portfolios for the Defined Benefit and Disability Plans, the Board should consider the following characteristics:

1. Liquidity

   Each plan should have liquidity to meet its cash flow needs. Individual investments may have limited liquidity so long as they do not interfere with the operation of the Plan as a whole.

   Prior to committing to any illiquid investment staff and/or the investment consultant shall prepare and the Board shall discuss/review the investment's characteristics:
   - The amount of the commitment,
   - The expected duration of the investment lockup,
   - The maximum duration of the investment lockup,
   - The expected period that cash will be called,
   - The expected period that distributions will be received,
   - The length of the exit cue (if relevant), and
   - The expected maximum cash call net of distributions received to that date.

   Prior to committing to any illiquid investment staff and/or the investment consultant shall prepare and the Board shall discuss/review the plan's status:
   - The cash flows to (contributions) and from (benefits & expenses) the plan,
   - The cash flows from other illiquid investments,
   - The plan's projected future cash flows,
   - The investment's diversification and return benefits,
   - The ability to sell other investments in anticipation of cash calls,
   - The risks in not raising cash in advance,
   - The availability of liquid alternatives to the illiquid investment under consideration,

   Once committed to illiquid investments:
   - The Fixed Income Allocation may include cash.
   - Cash will normally be kept to a minimum.
   - Cash will be reported in the monthly investment rebalancing report.
   - Cash may be raised in anticipation of upcoming cash needs.
   - The Chairman will appoint Board members to review the Investment Policy Statement's references to cash levels and report to the Board any recommended changes.
   - Consider rebalancing when moving cash in anticipation of a cash call

2. Diversification

Assets should be diversified among asset categories, sectors, capitalization, style, and geographic areas to minimize volatility.

3. Time Horizon

The time horizon of the Plans is perpetual. In projecting returns for the Plans, the Board may consider information from recent history (20 years), long-term history (about 70 years) or some combination of the two. The board may consider the long term averages, the trend-line (regression line), or mean reversion. The Board must judge what data gives the best estimate for future returns by applying evidence from the past to current circumstances.

4. Risk Tolerance

The primary investment emphasis of the Plans is to meet the actuarial rate of return over an extended period. However, secondary goals are to preserve capital and achieve consistency of results. The Board should strive to attain these secondary goals while still meeting the actuarial rate of return.

The Board recognizes that risk is present in all investments. The assumption of risk is needed to achieve satisfactory long-term results. It is the responsibility of the Board to manage the tradeoff between risk and return given the projected needs of the Plan, always attempting to minimize risk of the overall portfolio for any given level of return.

5. Asset Allocation

The Board shall conduct an asset allocation study once every three to five years or if circumstances change. The asset allocation resulting from that study shall be attached to these policy and guidelines as an addendum. The asset allocation study requires a projection of cash flows, which are dependent on contributions made into the plan and disbursements made from the plan in the form of benefits and expenses. The purpose of the asset allocation study is to understand the trade off between risk and return, and to aid in the construction of a portfolio that has a high probability of earning the actuarial rate of return but achieves this goal with a minimum of volatility. The most recent asset allocation study was performed in November 2014 and the asset allocation was adopted on November 13, 2014 based on the combined assets and liabilities of the pension & disability components.

6. Rebalancing

Once policy targets for asset allocation are set in the asset allocation study, the Board should instruct the Administrator to rebalance in an effort to keep asset allocation as close to the policy target as possible while at the same time minimizing transactions costs. Rebalancing policy as it applies to the most current asset allocation is contained in the asset allocation addendum to these policy and guidelines.

### C. Investment Asset Allocation

Investment asset classes are divided into three broad categories: fixed income, equity and alternative investments. Within these three broad categories the investments may be subdivided by geographic location, capitalization size and style. The adopted asset allocation shall determine the appropriate mix of these investment options, included in Addendum 1.

Fixed income investments shall be used primarily to provide stability of principle. Equity may be added to enhance return. Alternative investments may be added to enhance return, reduce correlation risk and to provide diversification that will reduce volatility as well.

### D. Performance Standards

Each manager hired will be assigned a benchmark. Managers are expected to exceed their benchmark net of fees, and to perform in the upper half of a universe of managers in a similar style over a market cycle or rolling three to five year periods. Benchmarks are listed in Addendum 1 for reference.

## III. Defined Contribution Component

The Board's objective in managing the Defined Contribution Component is to provide an array of investment options that will enable a participant to create a portfolio with risk-return characteristics appropriate to his/her individual time horizon, risk tolerance and financial needs.

The Board will encourage Plan participants to diversify assets to reduce volatility, and will provide sufficient information for Plan members to make informed investment choices.

The Board may decide to close a fund to additional participant investment, or to close a fund. The Board will insure that such a decision is communicated to plan participants, and will identify a replacement fund. The Board will communicate information about the replacement fund to plan participants, and give participants a reasonable period of time to reallocate their account balances from closed funds. If monies still remain in closed funds at the conclusion of the transfer period, the Board may invest these monies in the replacement fund.

The Board is aware that mutual funds and other commingled vehicles have separate guidelines and/or prospectuses. When employing such vehicles, the Board acknowledges that those separate guidelines and/or prospectuses shall supersede the guidelines that follow.

The Board may offer a self-directed investment option for the plan participants.

### A. Manager Responsibility

Third party administrator must acknowledge its fiduciary responsibility to the Plan and its participants.

### B. Investment Characteristics

The overall product offering must encourage employee participation, avoid undue complexity, and provide diversification. The Board should carefully consider the number of investment options offered, balancing the conflicting goals of simplicity and diversification.

### C. Investment Assets

Investment assets offered by the Plan should include offerings in four broad categories:

- Money market or guaranteed income funds offering moderate income and safety of principal with little volatility;
- Fixed income funds varied by type of issuer, risk and duration, offering greater current income for moderately greater volatility and risk of principal;
- Common stock funds, varied by market capitalization and style, offering greater capital appreciation potential with greater volatility and risk to principal;
- Balanced or asset allocation funds, offering potential for capital gains with a high degree of current income by offering some combination of the three previous types of investment assets.

### D. Performance Standards

During the selection process, each Fund should be benchmarked to an appropriate index. The Board should take care in selecting an appropriate index, and this index should be communicated to prospective investment firms during the selection process.

Funds are expected to exceed their appropriate benchmark on a net-of-fee basis, and to perform in the upper half of a universe of like funds. In the case of blended funds, multiple benchmarks from the representative asset class may be used for reference. The benchmarks are listed on Third party Administrator's performance and expense webpage.

### E. Participant Responsibility

Each plan participant in the defined contribution plan has the responsibility to construct and manage portfolios based on his or her own investment preferences and risk tolerance. Recognizing that these assets are long-term savings for retirement, each plan participant is obliged to avoid excessive short-term trading that may have an impact on other plan participants or fund shareholders.

## IV. Manager Guidelines

### 1. Active Managers

1. Benchmarks

Active managers are expected to beat a benchmark appropriate to their style, and to perform in the top half of a universe of similar portfolios. The benchmark used for comparison should be assigned to the manager as part of the selection process.

2. Requirements

Active managers managing separate accounts shall sign an addendum to the Investment Policy Statement that provides a summary of the statistics that were shown to the Board in the manager presentation as part of the RFP process. No portfolio should be managed to achieve particular statistics or characteristics. However, statistics and characteristics will reflect the Investment Manager's style, philosophy, techniques, and so on. Markets will fluctuate so there is no expectation that these numbers will be replicated in the future. However, it is believed that if the Investment Manager continues utilizing in the future the style, philosophy, techniques, and strategies that were used in the past that future portfolios will exhibit similar characteristics. The manager will contact the Board plan administrator if there is a change in the way plan's investments are managed.

The signed Addendum will include all of the following deemed appropriate:

- Diversification
- Maximum cash balances,
- Maximum holdings in any company,
- Maximum holdings in any one country,
- Maximum holdings in any sector,
- Permitted securities,
- Non-permitted securities,
- Typical portfolio turnover,
- Use of currency hedging,
- Use of leverage,
- Use of derivatives, and
- Any exceptions or limitations of the above.

**2. Passive Managers**

1. Benchmarks

Passive equity managers are expected to track their appropriate benchmark

**3. Alternative Investments**

The Board may consider allocating a portion of the portfolio to alternative investments including timber, emerging market equity, private equity, international bonds, real estate, venture capital, hedge funds, farmland, and others. Alternative investments should be considered with the goal of increasing the return of the portfolio without increasing risk, or lowering risk of the overall portfolio without lowering return.

Should the Board allocate part of the portfolio to an alternative asset class, separate investment guidelines specific to that asset class may be adopted.

## V. Authority

Investment managers for the defined benefit plan may not act upon written or oral instructions from any person other than the Board, or the Administrator acting on behalf of the Board or the Administrator.

### A. Discretionary Authority

Managers are given full discretion to act in accordance with the Statement of Investment Policy and Guidelines. In placing portfolio transaction orders on behalf of the Plan, each manager shall obtain execution of orders through responsible broker/dealers at the most favorable prices and at competitive commission rates, taking into consideration the efficiency of execution of the transaction.

### B. Reporting

1. Within 14 days a Manager must inform the Board of changes in organizational structure, ownership, or key personnel. Also a Manager must inform the Board of material litigation brought by a client or former client relating to investment advisory services, or any enforcement proceeding by a regulatory agency that would have a material effect on the Manager, within 14 days after the Manager has been notified of the litigation or the enforcement proceeding.

2. On a monthly basis each Manager is to submit a portfolio statement. The monthly statement should include market and book values for all security holdings and performance results compared with the designated benchmark.

3. On a quarterly basis each Manager is to submit a brief letter or report on the status of and outlook for his or her portfolio. The report should address the following:

   - Economic investment and outlook;
   - Investment strategy (short- and intermediate-term)
   - Explanation of any high concentrations in any one sector or security;
   - A list of portfolio holdings or a summary of the largest holdings;
   - Commissions on trades upon request;
   - Market and book values for all security holding;
   - Performance results compared with designated benchmarks (listed in the Addendum);
   - Brokerage commission reports (if any);
   - Turnover ratio;
   - Derivative use;
   - Quality ratings with average quality (for fixed income portfolios).

4. On an annual basis each Manager is to submit an annual proxy voting report and the filing of Form ADV with the Securities and Exchange Commission. Also on an annual basis, each Manager is expected to meet with the Board to discuss management of the portfolio. The Board must receive a report covering the topics listed under No. 3 above five days before the meeting. Managers may be asked to meet with the board more frequently if special circumstances require it and in the event of underperformance.

### C. Proxy Voting

The Investment Manager shall exercise authority with regard to proxy voting, acting solely in the interest of and for the exclusive purpose of providing benefits to participants and beneficiaries, and always acting in the best interests of participants and beneficiaries.

Investment managers shall be able to provide, upon request, an annual proxy voting report that shall include the following:

- Summation of all votes cast;
- Affirmation that all stock holdings with votes due were voted;
- Description of proposed changes in proxy voting policies;
- Confirmation that all votes cast were consistent with policy;
- Explanation of any violation of the previous requirements.

### D. Cost Management

Broker Relations. The investment manager is free to execute trades whenever it is in the best interests of the Plan, and will have the discretion to execute transactions with brokerage firms of his or her choosing.

- The selection of a broker should be based on the quality of executions. Factors affecting the quality of executions include the financial health of the brokerage firm, the business integrity of the brokerage firm, commission costs and overall efficiency.

- Commission dollars are a Plan asset and should not be used for purposes other than those that directly benefit Plan participants. The investment manager is required to provide reports and descriptions of all soft dollar arrangements involving the use of commission dollars to acquire resources of any type.

### E. Manager Visits

It is expected the Investment manager will send a representative to the Board at least biannually. In the event of performance below the benchmark more frequent visits are expected.

**V. Execution of Investment Policy**

IN WITNESS WHEREOF, this document has been approved and executed by the undersigned on this

__14th (fourteenth)__ day of January 2016.

Retirement Board
City of Alexandria
Firefighters and Police Officers Pension Plan

Date: 1/21/16 By: ____________________
Laura Triggs, CPA Plan Administrator

Date: 1/27/2016 By: ____________________
Michael Cross, Board Chairman

ADDENDUM 1
TO THE INVESTMENT POLICY STATEMENT
OF THE CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
PENSION PLAN ASSET ALLOCATION
ADOPTED NOVEMBER 2005
AMENDED JUNE 2010
AMENDED SEPTEMBER 2011
AMENDED JANUARY 2016

This Addendum formally recognizes action taken by the Board of the City of Alexandria Firefighters and Police Officers Pension Plan to establish an asset allocation.

**PENSION PLAN**

On October 15, 2009, the Board approved the target allocations to timber and set the allocations below. On May 13, 2010 the Board extended the allocation to the Disability component. At the July 14, 2011 meeting the board selected a single manager for small cap core consolidating the value and growth mandates. Also at that meeting the board selected a single manager for mid-cap core consolidating the value and growth mandates. At the November 13, 2014 meeting the board approved an updated asset allocation including an allocation to international fixed income, an increased allocation to real estate and updated allocation percentages within the domestic equity classes.

<table>
<tr><th colspan="2">Asset Class</th><th>Sector</th><th>Target</th><th>Range</th><th>Benchmark</th></tr>
<tr><td colspan="2">Domestic Equity</td><td>Large Cap Value</td><td>15%</td><td>± 2%</td><td>Russell 1000 Value</td></tr>
<tr><td colspan="2">Domestic Equity</td><td>Large Cap Growth</td><td>5%</td><td>± 2%</td><td>Russell 1000 Growth</td></tr>
<tr><td colspan="2">Domestic Equity</td><td>Mid Cap Core 15%</td><td rowspan="2">20%</td><td rowspan="2">± 3%</td><td>Russell Midcap</td></tr>
<tr><td colspan="2">Private Equity*</td><td>Private Equity 5%</td><td>Cambridge U.S. Private Equity Index</td></tr>
<tr><td colspan="2">Domestic Equity</td><td>Small Cap Core</td><td>5%</td><td>± 2%</td><td>Russell 2000</td></tr>
<tr><td colspan="2">International Equity</td><td>Developed Markets</td><td>10%</td><td>± 2%</td><td>MSCI EAFE</td></tr>
<tr><td colspan="2">International Equity</td><td>Emerging Markets</td><td>10%</td><td>± 2%</td><td>MSCI Emerging Markets</td></tr>
<tr><td rowspan="4">Income Component</td><td rowspan="2">Fixed Income</td><td>Global 5%</td><td rowspan="4">40%</td><td>± 2%</td><td>Barclays Global Aggregate Index</td></tr>
<tr><td>Domestic 15%</td><td>± 3%</td><td>Barclays Aggregate Index</td></tr>
<tr><td rowspan="2">Real Assets</td><td>Timber 5%**</td><td>N.M.F.</td><td>NCREIF Timber</td></tr>
<tr><td>Real Estate 10%</td><td>Full Discretion</td><td>NCRIEF ODCE Index</td></tr>
</table>

* On April 1, 2009 the Board voted to enter a private equity limited partnership. The commitment is to fund $5 million in installments when called.

** On January 14, 2010 the Board voted to enter a timber limited partnership. The commitment is to fund $7 million in installments when called.

**Rebalancing Policy, Pension Plan – Pension & Disability Components**

The purpose of rebalancing is to maintain an actual allocation that is close to the policy allocation. The staff is directed to manage cash flows into and out of the plan in a manner to achieve that goal. Rebalancing may be initiated whenever the board deems it appropriate. Rebalancing is required when any asset class sector or category falls outside the ranges listed above. Rebalancing will be placed on all meeting agendas.

Rebalancing may be initiated by the full board. Staff may initiate rebalancing when an allocation's weighting deviates from the target by more than the permitted range. All instructions to Comerica require two signers: 1) Director of Finance, and 2) Retirement Administrator. The one exception is wire transfers for capital calls for private equity or timber require one signature and a copy of the capital call letter.

All rebalancing initiated without action by the full board shall be reported to the full board as soon as possible, but in any case no later than a week after the action is taken.

Private Equity has unpredictable cash flows making effective rebalancing quite difficult and the results ephemeral. Private Equity funding will largely come from, and distributions go to, the Mid Cap allocation. Significant profits and losses will be distributed amongst all allocations through rebalancing. The combined target allocation for Mid Cap Core and Private Equity shall be 20% of the fund.

As with Private Equity, Real Assets such as Timber must be paired with a similar liquid asset to allow rebalancing. Timber acts much like Domestic Fixed Income and shall therefore be used. The combine target allocation for Domestic Fixed Income and Timber shall be 20% of the fund.

Most assets will have readily available market values. Private Equity and Real Assets will not. In evaluating asset allocation rebalancing, calculations may be based on lagged market values or cost basis.

**Staff Responsibilities**

Staff shall periodically monitor asset allocation and report to the board when allocations are no longer within range of the target allocation.

1. Valuation is an extremely important component of asset allocation and hence of rebalancing. Staff will periodically provide this information to the board.

2. Staff will regularly place rebalancing on the meeting agenda.

3. Staff will direct contributions to the fund, and withdrawals from the fund, to facilitate rebalancing.

4. If an allocation is not within range of its target staff is obliged to rebalance. Exceptions include:
   a. Specific direction from the board is provided in advance.
   b. A board meeting is scheduled within seven days.

Rebalancing is typically done to the target. However, staff may rebalance to any allocation that is closer to the target.

**Board Responsibilities**

The Board shall

1. Monitor asset allocation.
2. Reset the target allocations as needed, typically 2-5 years.
3. Consider an asset allocation study every three - five years or after significant changes in the assets, or liabilities of the plan or in the investment markets.
4. Consider rebalancing every 6 to 12 months.
5. Consider tactical asset allocation when unusual circumstances warrant it.