

## **Texas Local Fire Fighters' Retirement Act of Denton Pension Fund Investment Policy**

This investment policy is adopted as a guideline for the present board of trustees and all future boards of the Texas Local Firefighters Retirement Act of Denton (known hereafter as the Fund) and may be revised and amended from time to time only by a super majority of no less than five members of the board.

### **I. Statement of Investment Objectives:**

- A. It is the intent of the Board to obtain the highest possible return for participants in the Fund, consistent with safe, prudent, and conservative investment strategies. Safety is a prime concern and shall be taken to include not only the safety of dollar-sum principal but also the buying power of fund assets as well. For this reason, a continuing, reasoned balance between cash equivalents, debt securities, equities, real estate, and alternative investments shall be maintained at all times, based upon an ongoing assessment of short term risks and prospects over the longer term.
  
- B. To the extent possible, the total return of the portfolio will equal or exceed actuarial objectives set forth by the Fund's actuaries; however, this performance will be measured over broad market and business cycles and is not expected to be achieved in equal increments on a quarterly or even annual basis. The Fund also shall maintain sufficient income and liquidity to meet the present and future benefit demands of the Fund's participants.

### **II. Custodial services:**

The Board shall engage the services of a trust department or other qualified entity to perform custodial duties for the Fund, including but not limited to safekeeping of assets, settling trades, collecting interest and dividends, redeeming principal on securities which are called or have matured, receiving contributions, providing sweep services for uninvested funds, paying bills, disbursing monthly benefit checks to retirees, and providing monthly accountings. The custodian shall be available as necessary to confer with the Board and to answer operational questions as they arise.

However, should Advisors of Managed Accounts choose to include ancillary custodial arrangements as part of their service, they must provide satisfactory evidence of any FDIC, SIPC, or private insurance guaranteeing the safety of the funds and securities under their management.

### **III. Outside consultants:**

In addition, the Board may hire independent actuarial firms, certified public accountants, registered investment advisors, stock brokers, and other professionals as necessary to assist in the performance of its duties. Each such act of hiring will be subject to a super-majority vote of the Board.

#### **IV. Investment Philosophy:**

- A. Recognizing that few traders consistently beat the market or obtain total returns equal to those offered by long term buying and holding of quality stocks, it shall be contrary to the policy of the Fund to pursue short term trading strategies. Equity investments in common stocks will be diversified, balanced, and confined to high grade companies with consistent records of growth in varied economic climates, bought at prices deemed reasonable in relation to future prospects.
- B. The Fund will refrain from buying any stock we would not wish to carry through a substantial recession and prefer for the most part companies which have demonstrated both the ability and willingness to pay dividends on a consistent basis throughout the years. The exception to this rule will be in technology and other areas of high growth.
- C. The Fund will not directly engage in options trading, and all securities will meet current state laws governing their inclusion in the portfolio.

#### **V. Portfolio Composition:**

Common stocks will not exceed 66% of the Fund's total value as measured on the basis of current market value nor ever be less than 33%. The allocation at a given moment will depend upon the Board's assessment of present and future market and economic conditions. It is the intention of the Board to adjust for market risk by decreasing the Fund's exposure to equities toward the end of prolonged advances when earnings growth slows and common stocks are selling above historical norms as measured by P/E ratios, yield, and book value and, conversely, by redeploying these funds once Bear Market declines have reduced risk and returned values to more reasonable levels. In times of caution, excess cash (defined as money market accounts, CDs, and fixed income investments with maturities of less than one year) is there to serve as a buying reserve for future equity purchases and may be allowed to exceed levels outlined in the asset allocation guidelines for an extended period of time.

#### **VI. Individual Equities:**

- A. That portion of the total portfolio under the direct supervision and control of the trustees will not purchase stock in any company except by unanimous vote of the members of the Board present unless it has:
  - 1. A Moody's or Standard & Poor's credit rating of no less than Investment Grade;
  - 2. A Morningstar Financial Position Grade of B or above;
  - 3. A Morningstar ranking of 3 Stars or more;
  - 4. An established record of paying regular dividends—except for stocks in technology and similar high growth sectors.

Except by unanimous vote of the members of the Board present, the Fund will not continue to hold any common stock which has:

- 1. Fallen below Investment Grade;
- 2. Discontinued or substantially cut its dividend.

In order to ensure adequate diversification, the portfolio of individual issues will contain

no less than 20 companies; and one company cannot represent more than 5% of the market value of the entire Fund or 10% of the equity portion, counting both individual issues and mutual funds.

On a quarterly basis, the Board will review a written exception report prepared by the Fund's advisor which lists all securities failing to meet these criteria and take appropriate action in accordance with these guidelines.

- B. Portfolios managed by independent advisors on a discretionary basis are not subject to the restrictions outlined above and require no prior approval but rather are governed by the terms of the agreement between each advisor and the Fund.**

## **VII. Mutual and Exchange Traded Funds:**

While it is the policy of the Board to satisfy the objectives of the Fund in the area of Domestic Large Capitalization Equities primarily through the purchase of individual issues, the Board may rely on mutual or exchange traded funds to provide exposure to foreign markets, small to mid-cap companies, longer term debt securities, and contra-trend strategies. The funds will be selected using the following criteria:

1. Past performance and Morningstar ranking;
2. Volatility measures;
3. Commissions, break-point possibilities, and other front end charges;
4. Ongoing expense ratios and 12b-1 fees.

## **VIII. Fixed Income Securities:**

**As in the case with Equities, Fixed Income Portfolios managed by independent advisors on a discretionary basis are not subject to the restrictions outlined below and require no prior approval but rather are governed by the terms of the agreement between each advisor and the Fund.**

- A. It is the practice of the Fund to manage the fixed income portion of its portfolio under the direct supervision and control of the trustees by building a bond ladder using a combination of bank certificates of deposit within FDIC insured limits, corporate bonds, and U.S. Government Treasury and Agency Securities in order to provide a safe, fair, and dependable return at a cost which is economical. The duration and spacing of the ladder at any given time depend upon the Board's assessment of market and economic conditions but typically with an outer range of 8 to 10 years. At the time of purchase, corporate debt obligations must satisfy the following criteria:
1. A rating of Investment Grade or higher by Moody's or Standard & Poor's;
  2. No single issuer can comprise more than 5% of the Fund's total bond portfolio;
  3. A maximum duration of 10 years without Board approval;
  4. Option features compatible with the objectives of the Plan.
- B. The Fund may rely upon bond mutual funds to provide exposure to corporate debt instruments of longer term duration.
- C. The Fund will utilize money market accounts provided by the custodian or elsewhere to earn interest on funds available on a more temporary basis.

- D. The Fund may participate in mortgage loans originated by Denton area banks provided:
1. The Fund's position represents no more than 20% of the total loan.
  2. The loan to value ratio at the time of the loan is no more than 75% of appraisal.
  3. The underlying real estate is in Denton County.

**IX. Alternative Investments:**

The Fund may invest in oil and gas royalties, pipelines, and real estate through publicly traded royalty trusts, master limited partnerships, and real estate investment trusts (REITs) primarily as vehicles to provide a steady and reliable source of cash flow.

**X. Real Estate:**

The Fund may invest directly in income producing real estate properties upon the terms and conditions recommended by the Real Estate Committee and upon acceptance by a super-majority of the Board.

**XI. Allocation of Assets:**

- A. The Board recognizes the Fund's rate of return and level of risk is determined primarily by its asset mix. After taking into account the Fund's actuarial assumptions, tolerance for risk, investment time horizon, and what is a reasonable rate of return within the confines of these parameters, the Board has adopted the following strategic asset allocation:

<u>Policy Asset Allocation</u>	<u>Target</u>	<u>Range</u>
Domestic Large-Cap	40	25-50
Domestic Small & Mid-Cap	10	5-15
International Equity	10	5-15
Fixed Income	10	5-20
Cash and Equivalents	7	0-15
Alternative Investments	8	5-10
Real Estate	15	10-20

- B. The Board's Advisor will review and recommend a rebalancing of the portfolio not less than semi-annually taking into account present allocations and current market and economic conditions. In addition, performance for each asset class will be measured against the following benchmarks, established by the Board at the recommendation of its advisors.

<u>Asset Class</u>	<u>Benchmark</u>
Domestic & Foreign Large-Cap	S & P 500 & DJII
Domestic Small & Mid-Cap	S & P 500 & Nasdaq
MLPs	Alerian MLP Index

## **XII. Investment Managers:**

- A. The Board may engage registered investment advisors or stock brokers to assist in managing the assets of the Fund. It is the responsibility of these managers to meet with the Board on a regular basis to review the Fund's current holdings and asset allocations, to assess underlying economic and market conditions, to make recommendations for purchases and sales, and to execute trades. Unless otherwise specified in writing, no advisor or broker will have discretionary authority to act unilaterally; and all purchases and sales must be approved by a majority of the Board present at any meeting in accordance with the provisions of these guidelines.
- B. Assets placed under an agreement with a registered investment advisor which give that advisor full discretion to make decisions and to act on behalf of the Board are to be treated as a separate portfolio, subject to the provisions of Sections VI. B. and VII. of these guidelines. The agreement must clearly delineate the duties and responsibilities of each Party, and it is anticipated in such instances that the role of the Board will be restricted to monitoring and evaluating the performance of the advisor.

## **XIII. Prohibited Investments:**

Since safety is a prime objective, investments in venture capital and enterprise zone funds are deemed to be too speculative and specifically prohibited.

## **XIV. Amendment of Guidelines:**

Recognizing that trends, together with risks and opportunities in the economy and investments do change from time to time, these guidelines may be amended and altered by a super majority vote of no less than five members of the Board. However, such changes should be made after prolonged deliberation, discussion, and consultation among the governing body of the Fund.

## **XV. Proxy Voting:**

All company and mutual fund proxies may be voted by either the Chairman of the Board of Trustee or Administrator using his sole discretion.