



D A L L A S
POLICE & FIRE
PENSION SYSTEM



STRATEGIC INVESTMENT POLICY

As Amended through January 8, 2009

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Adopted December 11, 1986
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A. PURPOSE

The Strategic Investment Policy (“the Policy”) of the Dallas Police and Fire Pension System (“the System”) will provide the framework for the management of the System’s assets. It has been designed to allow for sufficient flexibility in the management process to capture investment opportunities as they may occur, yet provide reasonable parameters to ensure prudence and care in the execution of the investment program.

The Policy of the System has been developed from a comprehensive study and evaluation of many alternatives conducted by NEPC, LLC the System’s nationally recognized consultant. The primary objective of this Policy is to implement a plan of action that will result in the highest probability of maximum investment return from the System’s assets available for investment within prudent levels of risk. This Policy is reviewed and updated periodically based on recommendations from the System's staff and investment consultant.

The cornerstone of this Policy rests upon the proposition that there is a direct correlation between risk and expected return for any investment opportunity. While such a proposition is reasonable in logic, it is also probable based on empirical investigations.*

It is essential that the value added by the System’s investment management be appropriate not only to meet inflationary effects but also to provide additional returns above inflation to meet the investment goals of the System. Meeting the System’s investment goals finances an optimal package of retirement benefits for Dallas Police Officers and Firefighters and maximizes the utilization of the members’ contributions and the tax dollars of the Citizens of Dallas.

In order to achieve maximum returns the policy of the Dallas Police & Fire Pension System Board of Trustees (“the Board”) is to diversify between various investments types as deemed suitable. The January 8, 2009 Amendment to the Policy is to remove the Portable Alpha Allocation, create a Global Natural Resources allocation, and to distinguish between Public and Private Assets.

* Stocks, Bonds, Bills, and Inflation: Year by Year Historical Returns (1926-2008). Roger C. Ibbotson and Rex A. Sinquefeld.

B. GENERAL INVESTMENT GOALS:

The general investment goals are broad in nature to encompass the purpose of the System and its investments. They articulate the philosophy by which the Board will manage the System's assets within the applicable regulatory constraints.

1. The overall goal of the System is to provide benefits, as provided under the Plan, to its participants and their beneficiaries through a carefully designed and executed investment program.
2. The System seeks to produce the highest return on investment which is consistent with levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns is also recognized. Consequently, prudent risk taking is justifiable.
3. The System's investment program shall at all times comply with applicable state and federal regulations.

C. GENERAL POLICIES

1. When investing the System's assets, the Board shall discharge its duties solely in the interests of members and beneficiaries, acting with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with matters of the type would use in the conduct of an enterprise of a like character and like aims.
2. This Policy shall be based on analysis of the current and expected condition of the System, the expected long-term capital market outlook and the System's risk tolerance. The System's analysis will include the potential impact on pension costs of alternative asset allocation policies based on various levels of diversification in terms of risk and return in conjunction with the System's actuarial report on existing and projected liability structure of the Plan.

3. It is the responsibility of the Board to determine the specific allocation of the investments among the various asset classes. The Board periodically will undertake strategic asset allocation studies to address the appropriateness of asset classes to be considered for permanent commitments. Based on such studies, the Board will define the targeted commitment to each asset class to achieve the desired level of diversification and return. These studies shall come from System staff, outside consultants, and investment professionals, as they may be retained.
4. The asset allocation presented in Section D of this Policy is predicated on factors such as the following:
 - a) the historical performance of capital markets adjusted for the perception of the future short and long term capital market performance;
 - b) the correlation of returns among the relevant asset classes;
 - c) the perception of future economic conditions, including inflation and interest rate assumptions;
 - d) the projected liability stream of benefits and the costs of funding to both covered employees and employers;
 - e) the relationship between the current and projected assets of the plan and the projected actuarial liability stream.
5. To implement the planned asset allocation, the Board will select external managers, operators, partners, and/or advisors with demonstrated experience and expertise whose investment styles collectively will implement the planned asset allocation to form the System's investment structure. The Board will review their investment performance against stated objectives.
6. The Board will utilize the services of banks that will be responsible for the custody of the System's assets, managing temporary cash assets, identifying and collecting income, and providing accounting information.
7. The Board may retain independent professional investment consultants to assist in the development and implementation of the Policy. Retained consultants shall also monitor, oversee, report on, and make recommendations with respect to the activity of current and, if appropriate, prospective investments.

8. It is the responsibility of the Board to administer the investments of the System at the lowest reasonable cost, being careful not to sacrifice quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs, due diligence costs, and other reasonable administrative costs chargeable to the System. All transactions undertaken on behalf of the System shall be for the exclusive purposes of providing benefits to active and retired members and their beneficiaries and defraying reasonable administrative expenses.
9. When feasible, the Board shall reallocate assets on an on-going basis to balance the overall asset allocation against its target when deviations occur because of capital market fluctuations.
10. The Board considers the active voting of proxies an integral part of the investment process. Proxy voting may be delegated to the discretion of investment managers retained by the Board. The managers shall be required to establish a proxy voting policy and maintain records of proxy votes, and shall make these records available periodically to the Board or its designee. The Board may at its discretion establish an overall policy of voting proxies in which case the managers' proxy voting policy shall not conflict with that of the Board. The Board recognizes that in certain emerging markets, investment managers may, balancing the costs and benefits, not exercise proxy voting.
11. The Board, in its discretion, may delegate investment authority to the Administrator.

D. STRATEGIC ASSET ALLOCATION POLICY

The System's investments will be divided into five primary asset groups; Global Equity, Global Natural Resources, Global Fixed Income, Global Asset Allocation, and Global Real Estate.

1. GLOBAL EQUITY

- a. Public Equity: 27.0% of the System's assets will be allocated to a variety of public asset classes, including, but not limited to: US Small Capitalization, Global Equity, and Global REIT's.

- b. Private Equity: 15.0% of the System's assets will be allocated to a variety of private asset classes, including, but not limited to: Infrastructure, and Private Equity.

2. GLOBAL NATURAL RESOURCES

Global Natural Resources: 10.0% of the fund is to be allocated to natural resources securities and private market opportunities in different asset classes, such as energy, sustainable assets, timber, and agricultural.

3. GLOBAL FIXED INCOME

- a. Public Fixed: 13.0% of the System's assets will be allocated to an actively managed publicly-traded portfolio invested globally in a variety of fixed income related securities in both investment grade fixed income universe, and below investment grade fixed income securities. This portfolio will be diversified among countries, market sectors, maturities, coupons, and quality ratings and expected to provide returns above a market index by capturing yield opportunities around the world.
- b. Private Fixed: 7.0% of the System's assets will be allocated to an actively managed portfolio invested opportunistically in a variety of high yielding, generally below investment grade fixed income securities. This segment will invest in fixed income related securities such as convertible bonds, emerging market debt, local emerging market currency, high yield bonds, corporate debt securities, bank loans, private placements, distressed debt, asset backed securities, and commercial mortgage-backed securities around the world.

4. GLOBAL ASSET ALLOCATION (GAA):

Global Asset Allocation: 10.0% of the System's assets will be allocated to an actively managed portfolio invested globally using both strategic (long-term), and tactical (short-term) allocations. This GAA segment will be invested in a wide variety of assets and strategies across various global investment markets. The goal is to have a portfolio that has a low correlation with the other asset classes.

5. REAL ESTATE

Real Estate: 18.0% of the System's assets will be allocated to a real estate portfolio that is diversified by property type and geographic location. The objective of the real estate portfolio is to provide immediate protection against unexpected inflation, dampen overall asset volatility and provide diversification from traditional capital market exposure.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents: There is no specific allocation to cash; the investment structure is forecast to produce sufficient cash flow to provide required liquidity without a specific allocation to cash. It is recognized that small residual cash can result from normal trading activity.

SUMMARY OF ASSET ALLOCATION TARGETS

	<u>Target</u>
GLOBAL EQUITY	
Public Equity	27.0%
Private Equity	15.0%
TOTAL EQUITY	42.0%
GLOBAL NATURAL RESOURCES	10.0%
GLOBAL FIXED INCOME	
Public Fixed	13.0%
Private Fixed	7.0%
TOTAL FIXED INCOME	20.0%
GAA	10.0%
GLOBAL REAL ESTATE	18.0%
TOTAL PORTFOLIO	100.0%

E. INVESTMENT IMPLEMENTATION POLICY

An asset allocation review shall be conducted at least quarterly. This comparison shall be developed from the most recent asset valuation obtained from the System's custodian. If this comparison reveals that an account is outside of the designated range, as specified in the Investment Implementation Policy, the Board shall direct the Administrator to effect a reallocation of assets as soon as administratively possible to achieve the prescribed target.

F. PERFORMANCE OBJECTIVES

Long-term objectives have been established against which the performance of the strategic investment policy is to be measured. Capital markets fluctuate, and given the duration of the System liability stream, the viability of the strategic asset allocation is to be judged over a long period of time. The performance objectives are:

1. To meet or exceed inflation as measured by Consumer Price Index or another appropriate inflation index to ensure that real asset growth maintains pace with real pay growth and cost of living adjustments, primary determinants of benefits and, therefore, pension costs.
2. To exceed the actuarial Assumed interest rate assumption of 8.50% plus expenses.
3. To measure the value added by active management the total fund performance should exceed a Board approved policy index that is calculated by weighting the appropriate indices according to asset allocation.
4. To exceed our expected rate of return as calculated periodically by the Systems consultants.

G. AMENDMENT

The Board may amend this Strategic Investment Policy after discussion at two meetings by the Board, either the quarterly financial meeting or the regular monthly meeting. The two meetings must be a minimum of 21 calendar days apart.

APPROVED on January 8, 2009 by the Board of Trustees of the Dallas Police and Fire Pension System.

E F G H

Gerald Brown
Chairman

ATTEST:

A B C D

Richard L. Tettamant
Secretary