



D A L L A S
POLICE & FIRE
PENSION SYSTEM



INVESTMENT POLICY STATEMENT

Amended as of December 14, 2017

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Adopted April 14, 2016
Amended as of December 14, 2017

TABLE OF CONTENTS

SECTION 1	Introduction and Purpose	1
SECTION 2	Design, Goals, and Objectives	2
SECTION 3	Standards of Conduct and Fiduciary Responsibility	3
SECTION 4	Core Beliefs and Long-Range Acknowledgments	3
SECTION 5	Roles and Responsibilities	4
SECTION 6	Authorized Asset Classes and Investment Guidelines	11
SECTION 7	Investment Due Diligence and Monitoring	13
SECTION 8	Risk Management	14
SECTION 9.	Effective Date	14
SECTION 10	APPENDICES	

INVESTMENT POLICY STATEMENT

Adopted April 14, 2016
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Section 1 Introduction and Purpose

This policy statement shall guide investment of the assets of the Dallas Police and Fire Pension System (DPFP). This investment policy statement (IPS) is issued for the guidance of the Dallas Police and Fire Pension System Board of Trustees (Board), Investment Advisory Committee (IAC), Executive Director, Staff, Consultant(s), Custodian, and Investment Managers. This IPS is intended to set forth an appropriate set of goals and objectives for DPFP. It will define guidelines to assist fiduciaries and Staff in the supervision of the investments of DPFP. The investment program processes and procedures are defined in the various sections of the IPS by:

- A. Stating in a written document DPFP's expectations, objectives and guidelines for the investment of assets;
- B. Setting forth an investment structure for managing the portfolio. This structure includes assigning various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon;
- C. Encouraging effective communications between the Board, IAC, Staff, Consultant(s), Investment Managers and Custodian(s);
- D. Set forth policy that will consider various factors, including inflation, consumption, taxes, liquidity and administrative expenses, that will affect the portfolio's short and long term total expected returns and risk;
- E. Establishing formal criteria to select, evaluate, monitor, compare, and attribute the performance of Investment Managers on a regular basis; and
- F. Complying with all applicable fiduciary and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal, and international political entities that can impact DPFP.



Section 2 Design, Goals, and Objectives

Staff and the Consultant(s) are expected to deliver excess return beyond the Policy Benchmark¹ through manager selection and asset allocation adjustments. By achieving allocation and performance objectives consistently, the long-term investment goals of DPFP are expected to be achieved.

A. Goals

1. Ensure funds are available to meet current and future obligations of the plan when due while earning a long-term, net of fees investment return greater than the actuarial return assumption.
2. To consistently rank in the top half of the public fund universe over the rolling three-year period, net of fees.

B. Objectives

1. To maintain a diversified asset allocation;
2. To provide for an appropriate risk adjusted rate of return;
3. To allow for both passive and active investment management;
4. To monitor quarterly manager performance;
5. To monitor monthly asset allocation changes;
6. To outperform the Policy Benchmark over rolling three-year periods;
7. To control and monitor the costs of administering and managing the investments;
8. Establish guidelines and procedures for selecting, monitoring and replacing investment vehicles; and
9. Re-evaluate annually the policies defined in this IPS.

¹ The Policy Benchmark represents the return of the investable and non-investable indices as defined in Appendix A, at the target allocation for each asset class.

Section 3 Standards of Conduct and Fiduciary Responsibility

The following are standards of conduct for the Board, Investment Advisory Committee, Staff, Investment Managers, Consultant(s) and all investment related other service providers of DPFPP:²

- A.** Place the interest of DPFPP above personal interests;
- B.** Act with integrity, competence, diligence, respect, and in an ethical manner;
- C.** Use reasonable care, diligence, and exercise independent professional judgment when conducting analysis, making recommendations, and taking actions;
- D.** Promote the integrity of and uphold the rules governing DPFPP;
- E.** Comply with all applicable laws, rules, and regulations of any government agency, regulatory organization, licensing agency, or professional association governing their professional activities;
- F.** Not assist or knowingly participate in any violation of governing laws, rules, or regulations;
- G.** Not accept gifts, benefits, or compensation that could be expected to compromise independence and objectivity;
- H.** Must not knowingly make any statement that misrepresents facts relating to investment analysis, recommendations, actions, or other professional activities;
- I.** Not engage in conduct involving dishonesty, fraud, deceit; and
- J.** Make full disclosure (annually) of all matters that could reasonably be expected to impair independence and objectivity with their respective duties to DPFPP.

Section 4 Core Beliefs and Long-Range Acknowledgements

This section outlines the core beliefs and long-range acknowledgements for the overall governance of DPFPP. These beliefs and acknowledgements will serve as guiding principles in the decision making and implementation of DPFPP's investment mandate.

- A.** A well-defined governance structure with clearly delineated responsibilities is critical in achieving consistent, long term performance objectives.

² These are informed by the CFA Institute and the Center for Fiduciary Studies.

Section 4 Core Beliefs and Long-Range Acknowledgements (continued)

- B.** The strategic asset allocation determines the risk reward profile of the portfolio and thus drives overall portfolio volatility.
- C.** The opportunity for active manager outperformance (alpha) is not uniformly distributed across asset classes or Investment Managers' strategies.
- D.** Portfolio rebalancing to the asset allocation will occur on a periodic basis.

Section 5 Roles and Responsibilities

A. Board

The Board is made up of eleven (11) Trustees. The Board has a fiduciary role as the representative of DPFP. The Board recognizes its fiduciary duty and acknowledges its responsibility to ensure that the management of plan and DPFP's fund is in compliance with state and federal laws. Additionally, the Board:

1. Establishes investment objectives consistent with the needs of DPFP and approves the IPS of DPFP;
2. Prudently diversifies, selects, and maintains a general investment strategy consistent with allocation ranges and investment guidelines including an agreed upon risk/return profile;
3. Approves strategic asset allocation targets and ranges;
4. Prudently hires, monitors, & terminates Consultant(s), Investment Managers and other vendors;
5. Reviews investment related expenses;
6. Approves Board travel related to investment monitoring, and in exceptional cases due diligence;
7. Approves any use of direct portfolio leverage by DPFP;

A. Board (continued)

8. Adopts the IPS and annually reviews in the last quarter of each calendar year and revises as needed; and
9. Avoids prohibited transactions and conflicts of interest.

B. Investment Advisory Committee

1. IAC Composition, Selection and Criteria

- a. The IAC serves at the discretion of the Board of Trustees;
- b. The IAC is composed of five members: three outside investment professionals with broad portfolio management experience and two current Board members.
- c. The current Board members will serve staggered two-year terms on the IAC. Non-Board members will serve a staggered two-year term.
- d. The Board will vote on and approve all IAC members;
- e. IAC meetings will not be open to the public and will require a quorum of at least three IAC members;
- f. The IAC will select a chair from its members to serve as liaison to the Board and to preside over IAC meetings;
- g. Each outside investment professional member of the IAC will adhere to the DFPF Ethics Policy;
- h. If the Executive Director learns that potential ground for removal of an IAC member exists, the Executive Director shall notify the Chair of the Board of the potential grounds for removal;
- i. The Board of Trustees may elect to dismiss a member of IAC for any reason.

2. IAC Roles and Responsibilities:

- a. The IAC will review all investment-related items which are brought to the Board for action;

2. IAC Roles and Responsibilities: (continued)

- b. The IAC will make non-binding recommendations to the Board;
- c. The IAC chair will discuss the IAC recommendation, or lack thereof, with the Board, as needed.
- d. If requested by the Board, IAC shall review Staff and Consultant recommendations on asset allocation targets and ranges, and provide an IAC recommendation to the Board; and
- e. The IAC members are fiduciaries to DPFP.

C. Staff

1. Executive Director

- a. The Executive Director is authorized to administer the operations and investment activities of DPFP under policy guidance from the Board;
- b. Is authorized to manage investments approved by the Board including authority to enter into contract amendments including fund extensions, act with regard to investment governance issues and engagement of advisors as needed;
- c. Manages the day to day operations of DPFP;
- d. Reports to the Board when strategic asset allocation breaches target allocation bands;
- e. Oversees and reports to the Board on investment and due diligence processes and procedures;
- f. Approves/declines all Staff travel related to all manager pre-hire & on-site due diligence;
- g. Approval of Investment Staff recommendations for presentation to the IAC and Board; and
- h. Is a fiduciary to DPFP when exercising discretion.

2. Investment Staff

The Staff is responsible for manager due diligence and recommendations, portfolio implementation consistent with the Board approved asset allocation, and will assess the activities of the Consultant(s). The Staff helps the Board and the IAC to oversee Investment Managers, Consultant(s), Custodian(s), and vendors. Additionally, the Staff:

- a. Reports to Executive Director when portfolio asset classes exceed allowable strategic boundaries;
- b. Notifies Consultant(s) in writing of rebalancing needs and recommended implementation, so as to employ periodic cash flows to asset classes within target allocation ranges as well as to periodically rebalance the portfolio;
- c. Instructs Investment Managers to implement Consultant approved re-balance instructions;
- d. Submits to Executive Director for review, on annual basis, recommended asset allocation targets and ranges & oversees implementation of the approved asset allocation;
- e. Monitors and reports portfolio asset class balances;
- f. Assists in the preparation and annual review of IPS;
- g. Reviews Consultant(s)'s Investment Manager due diligence and recommendations;
- h. Prepares Staff Investment Manager recommendations, submits Staff and Consultant(s) recommendations to Executive Director for review;
- i. After Board approval of investment, Staff approves Investment Manager Strategy guidelines which will be outlined in the Investment Manager agreements, as applicable;
- j. Monitors all investments, Investment Managers and vendors;
- k. Monitors adherence to quantitative due diligence criteria;
- l. Accounts for and reviews annually all external management fees and investment expenses;

2. Investment Staff (continued)

- m. Ensures all fiduciaries to DPFPP are aware of their fiduciary obligations annually;³
and
- n. Is not a fiduciary to DPFPP.

D. Consultant(s)

The Consultant(s) should monitor qualitative and quantitative criteria related to Investment Managers and aggregate portfolio activity and performance. The Consultant(s), through its continuous and comprehensive responsibilities to DPFPP should acknowledge in its contract, its fiduciary responsibility to DPFPP. Additionally, the Consultant(s):

1. Recommends annually to IAC and Board strategic asset allocation targets, ranges, and benchmarks for asset classes;
2. Documents asset allocation recommendations with asset class performance expectations including standard deviation, expected return and correlations for each asset class used by DPFPP;
3. Establishes and follows due diligence procedures for Investment Manager candidate searches;
4. Conducts screens and searches for Investment Manager candidates;
5. Assists in the selection process and monitoring of Investment Managers;⁴
6. Reviews and recommends Investment Managers and peer groups to IAC and Board;
7. Documents and delivers to Staff written recommendations on Investment Manager new hire, hold and termination reviews;
8. Any new hire recommendation from the Consultant should include a recommended benchmark and an assessment of appropriate asset class and sub-allocation;

³ Verification of this may be through contract, agreement, or annual fiduciary acknowledgement letter.

⁴ The specific screening criteria for investment managers can be found in Appendix B.

D. Consultant(s) (continued)

9. Approves and verifies in writing each of Staff's rebalancing recommendations and implementation;⁵
10. Reviews whether rebalancing was done consistent with best practices;
11. Monitors the diversification, quality, duration, and risk of holdings as applicable;
12. Assists Staff in negotiation of terms of vendor contracts;
13. Prepares quarterly investment reports, which include the information outlined in Appendix C; and
14. Acts as a fiduciary to DPFP.

E. Investment Managers

1. Public Investment Managers
 - a. Acknowledge in writing acceptance of the objectives, guidelines, and standards of performance;
 - b. Invest the assets of DPFP in accordance with its objectives, guidelines and standards;
 - c. 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;
 - d. If managing a separate account, send trade confirmations to the Custodian;
 - e. For separately managed accounts, deliver monthly report to Consultant(s)/Staff describing portfolio asset class weights, investment performance, security positions, and transactions;
 - f. For commingled assets, this statement should show unit position and unit value;

⁵ Evidence of approval may be in electronic format

1. Public Investment Managers (continued)

- g. Adhere to best execution and valuation policies;
- h. Prices and fair market valuations will be obtained from a third-party reporting service provider;
- i. Communicate to Executive Director any material changes at firm;
- j. Inform DPFP, as soon as practical, in writing of any breach of investment guidelines, ethic violations or violations of self-dealing;
- k. Communicate significant changes in the ownership, organizational structure, financial condition, or personnel staffing; and
- l. Acts as a fiduciary to DPFP.

2. Private Investment Managers

- a. Acknowledge in writing acceptance of the objectives, strategy guidelines, and standards of performance as evidenced in investment manager, operating or partnership agreement;
- b. Will ensure that financials statements undergo annual audits and that investments are reported at fair market value, as outlined in the Investment Management, Partnership or Operating Agreement(s);
- c. Communicate to Executive Director any material changes in the ownership or management of the firm, and or the stability of the organization;
- d. Inform DPFP, as soon as practical, in writing of any breach of investment guidelines, ethic violations or violations of self-dealing; and
- e. Acts as fiduciary to DPFP, unless specified and acknowledged by Board at time of hire.

F. Custodian

1. Safe keep and hold all DFPF's assets in the appropriate domestic accounts and provide highly secure storage of physical stock certificates and bonds such that there is no risk of loss due to theft, fire, or accident;⁶
2. Maintain separate accounts by legal registration;
3. Arrange for timely execution and settlement of Investment Manager securities transactions made for DFPF;
4. Provide for receipt and prompt crediting of all dividend, interest and principal payments received as a result of DFPF portfolio holdings or securities lending activities;
5. 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;
6. At the direction of the Staff, expeditiously transfer funds into and out of specified accounts.

Section 6 Authorized Asset Classes & Investments Guidelines

A. Asset Class Guidelines

1. Asset allocation is the primary driver of the volatility of portfolio return. To achieve the goals and objectives of DFPF, the fund's assets will be invested in the categories listed in Appendix A. The assets shall be diversified, in order to minimize the concentration risk, both by asset class and within an asset class.
2. The strategic asset allocation shall be monitored on an ongoing basis and rebalanced when the lower and upper bounds on the ranges are breached, understanding the timing of the rebalancing may be delayed depending the liquidity of the asset class and costs of rebalancing, and otherwise at the discretion of Staff with concurrence of the Consultant.
3. Securities lending is permissible for separately managed accounts and commingled vehicles.

⁶ Electronic transfer records at the Depository Trust Company ("DTC") are preferred.

B. Authorized Investments

1. **Equities:** Equity represents residual ownership of public and private companies after obligations to debt holders have been satisfied.
2. **Fixed Income:** Fixed-income instruments are securities or debt obligations issued by governments, government-related entities, structured debt facilities and public and private companies that contain contractual obligations from the issuer to make interest and/or principal repayments to investors over the duration of the negotiated term agreement.
3. **Real Assets (Liquid and Illiquid):** Liquid real assets are investments in tradable tangible/physical assets or related claims that may display a positive correlation to the rate of inflation. Illiquid real assets (natural resources and infrastructure) represent ownership claim to an actual, finite asset or property.
4. **Global Asset Allocation:** An investment strategy that actively invests in a variety of liquid assets including cash, equity, fixed income, credit, derivatives (interest rate, currency, index) and commodities.
5. **Private Equity:** A non-financial asset that is relatively illiquid and non-transparent. Private equity funds make investments directly into private companies.
6. **Private Debt:** Private debt funds typically provide capital to private sector borrowers.
7. **Real Estate:** Real estate represents investment in a range of properties which provide income and/or appreciation potential. Investments in real estate can be structured as public or private debt and/or equity, and can be in the U.S. or foreign countries.
8. **Other Authorized Investments:** Trade finance and reinsurance based strategies;

C. Alternative Investments

The Board has adopted the definition of “Alternative Investments” as outlined in Appendix D, which will be reviewed as part of the due diligence process for any new investment. Pursuant to Section 4.07 of Article 6243a-1, the vote of eight trustees is required to approve any Alternative Investment.

Section 7 Investment Due Diligence & Monitoring

A. Investment Due Diligence

Staff and Consultant(s) are responsible for recommending external Investment Managers to the IAC and Board for review for potential hiring. The following will be implemented:

1. Investment Manager candidate due diligence will be conducted by Staff & Consultant(s).
2. Due diligence criteria are defined in Appendix B.
3. Selected candidate(s) will be presented to the IAC.
4. IAC will communicate their recommendation, or lack thereof, on the candidate(s) for consideration and final approval by the Board.

B. Investment Monitoring

1. Staff and Consultant(s) are responsible for monitoring external public & private Investment Managers. Public and private Investment Managers will be monitored relative to peers and benchmarks monthly and quarterly, respectively. Additionally, each current manager is expected to satisfy the due diligence criteria outlined in Appendix B. If the following criteria are not met, an Investment Manager is to be considered an underperformer:
 - a. Investment Managers' 3 year rolling returns in excess of peer group average;
 - b. Investment Managers' 3 year rolling risk-adjusted returns in excess of peer group average;
 - c. Investment Managers' qualitative requirements must be satisfied at all time periods, as determined by Staff or Consultant;
2. Based on the criteria outlined above, the Consultant will highlight underperforming Investment Managers in their quarterly report to the Board. If an Investment Manager is considered an underperformer, Staff and Consultant will provide recommendations to IAC and the Board regarding whether to "hold" or "sell".

Section 8 Risk Management

The Staff will work within these policies to mitigate the risk of capital loss. By implementing these policies, the Board has addressed:

- A. Custodial Risk for both public and private holdings;⁷
- B. Interest Rate Risk through fixed income duration and credit monitoring;⁸
- C. Concentration and Credit Risk through asset allocation targets and ranges, rebalancing, and the monitoring of investment guidelines.

Through these policies, Staff has necessary monitoring criteria established for Custodian, Consultant(s) and Investment Managers, such that DPFP has in place policies that will mitigate interest rate, custody, concentration and credit risks.

Section 9. Effective Date

APPROVED on December 14, 2017 the Board of Trustees of the Dallas Police and Fire Pension System.

[signature]

William F. Quinn
Chairman

Attested:

[signature]

Kelly Gottschalk
Executive Director

⁷ Please review Custodian responsibilities in Section 5.

⁸ Please review Annual Review of IPS and Investment Manager strategy guidelines reviewed and approved by Staff.



APPENDICES

Appendix A – Interim Asset Allocation

STRATEGIC ASSET ALLOCATION TARGETS & RANGES

Asset Class	Policy Benchmark	Target	Range
Cash	90-day T Bills	2.0%	0% – 5%
Plan Level Leverage	(LIBOR + 300)	0%	0% - 15%
Equity		30.0%	20% – 40%
Global Equity	MSCI AC World (gross)	20.0%	10% – 23%
EM Equity	MSCI EM Equity (gross)	5.0%	0% – 8%
Private Equity	R3000 +3% (Rolling 3 Mo.)	5.0%	4% – 15%
Fixed Income		33.0%	15% – 38%
Short-Term Core Bonds	Barclays UST 1-3 Year	2.0%	0% – 5%
Global Bonds	Barclays Global Aggregate	3.0%	0% – 6%
High Yield	Barclays Global HY	5.0%	2% – 8%
Bank Loans	S&P Leveraged Loan Index	6.0%	3% – 9%
Structured Credit & Absolute Return	HFRI RV: FI (50/50-ABS/Corp)	6.0%	0% – 9%
EMD (50/50)	50% JPM EMBI/50% JPM GBI-EM	6.0%	0% – 9%
Private Debt	Barclays Global HY + 2% (Rolling 3 Mo.)	5.0%	2% – 7%
Real Assets		25.0%	20% – 45%
Natural Resources	S&P Global Nat Res (Rolling 3 Mo.)	5.0%	3% – 10%
Infrastructure	S&P Global Infra (Rolling 3 Mo.)	5.0%	3% – 10%
Real Estate	NCREIF	12.0%	10% – 25%
Liquid Real Assets	CPI + 5.00%	3.0%	0% – 6%
Global Asset Allocation		10.0%	5% – 15%
Risk Parity	60% MSCI ACWI/40% Barclays Global Aggregate	5.0%	2% – 8%
GTAA	60% MSCI ACWI/40% Barclays Global Aggregate	3.0%	0% – 6%
Absolute Return	HFRX Abs Ret Index	2.0%	0% – 5%
TOTAL		100.0%	

Appendix B – Due Diligence Criteria

The public market Investment Manager screening criteria include:

1. Lead portfolio manager tenure/experience at least 5 years.
2. Firm level assets under management: 75 million or more under management.
3. Investment style should consistently match what is approved and outlined in the Investment Manager's guidelines, and will be compared and analyzed against peers/sub-asset class category.
4. Sharpe ratio generally would exceed .3, which may not be possible following a prolonged bear market in that respective market, and must exceed 50% of its peer group over a three year rolling period.
5. Three year rolling total return, on a net of fee basis, must exceed 50% of its peer group.
6. On site due diligence meeting is recommended.
7. Fiduciary acceptance and acknowledgement.

The private Investment Manager screening will focus on the key areas of:

1. Alignment of Interests: management fees and expenses, carry/waterfall, term of fund, General Partner commitment.
2. Governance: team, investment strategy, fiduciary duty, Limited Partner Advisory Committee responsibilities and makeup, changes of the fund.
3. Transparency: risk management, financial information, disclosure related to the GP, management and other fees.
4. Track Record: the firm or lead portfolio manager should have a track record of at least 5 years.
5. Performance: a majority of previous funds should rank in the top 50% of their vintage year and strategy fund universe.

If any of the above due diligence criteria are not met, the Staff and Consultant will disclose this in their recommendations to the IAC and Board, along with an explanation of why the investment is still appropriate.

Appendix C – Investment Consultant Reporting Requirements

Investment Consultant Reporting Requirements

The investment consultant is required to provide the Board with quarterly investment information for portfolio monitoring purposes. Generally, these are as follows:

Quarterly (due in advance of the meeting)

1. A review of the current investment market environment.
2. DPFPP's actual asset allocation relative to its target asset allocation as defined in Appendix A.
3. DPFPP's return relative to its Policy Benchmark return and other public pension funds.
4. DPFPP's risk adjusted returns relative to the policy and other public pension funds.
5. Asset class performance relative to the benchmarks as defined in Appendix A.
6. Individual Investment Manager returns relative to their stated benchmark.
7. Report will specifically acknowledge any underperforming Investment Managers based on the criteria outlined in Section 7 of the IPS.
8. Any reportable events affecting any of DPFPP's Investment Managers.
9. Private Markets reports which covers Private Debt, Private Equity, Infrastructure, Real Assets and Real Estate.

Appendix D – Alternative Investments

Alternative Assets means any investment that is not a Traditional Asset.

Traditional Assets include:

1. Common Stocks: publicly traded securities representing ownership in a corporation; also known as publicly-traded equity. Examples include publicly traded equity shares of public companies, REITs, and ADRs. Regional examples include shares of companies domiciled in the US, non-US developed markets and emerging markets.
2. Bonds: publicly-traded securities, the holders of which serving as creditors to either governmental or corporate entities. Examples include government bonds and corporate bonds, including senior bank loans. Regional examples include US government issued bonds, non-US international developed market issued bonds, and emerging market issued bonds. Credit examples include investment grade bonds and non-investment grade bonds (e.g. high yield bonds and bank loans).
3. Cash Equivalents: short-term investments held in lieu of cash and readily convertible into cash within a short time span. Examples include CDs, commercial paper, and Treasury bills.

Though an exhaustive list is not included, some of the defining characteristics of Alternative Assets and their vehicles include:

1. Private ownership vehicles
2. Liquidity-constrained, and a lock-up of capital for extended time periods (one-year or longer)
3. Use of leverage
4. Ability to take short positions
5. Use of derivatives

The Board recognizes that certain investments may have characteristics and underlying securities that could be classified as both a Traditional and Alternative Investment. On any new investment recommendation, Staff and Consultant will categorize an investment as either Alternative or Traditional based on these criteria, with a focus of liquidity of the investment, for the Board's consideration.