

STATE OF LOUISIANA
FIREFIGHTERS' RETIREMENT SYSTEM
INVESTMENT POLICY

Amended and Approved on 05/21/09

TABLE OF CONTENTS

| <u>Topic</u> | <u>Page</u> |
|--------------------------------------|-------------|
| Table of Contents | i |
| Introduction | 1 |
| Basic Investment Philosophy | 2 |
| Parameters of Portfolio Construction | 4 |
| Fixed Income Investment Policy | 5 |
| Equity Investment Policy | 6 |
| Restricted Transactions | 7 |
| Communication | 8 |
| Trustee Responsibility | 10 |
| Control Procedures | 11 |
| Execution | 12 |

INTRODUCTION

The Firefighters' Retirement System (FRS) was established on January 1, 1980, by Act No. 434 of 1979 to provide retirement benefits and other allowances for firefighters and other employees of municipalities, parishes, and fire protection district of this state. FRS has the power and privileges of a corporation and transacts its business in its corporate name, including the investment of its funds and all of its cash, securities, and other property held. FRS is administered by a board of trustees (the board) with broad statutory powers set forth in R.S. 11:2260. The investment authority is vested in the board as set forth in R.S. 11:261-268 and 2261. One of the important duties of the board is to develop investment policies to govern the management of this system's assets, which helps assure that the growth of those assets will prudently provide for the maximum possible benefits to the members and beneficiaries of FRS.

To assist in the process, the board will retain investment management firms that possess, in the board's opinion, capabilities for the expert management of assets of a public retirement system. The selected firms are, as a condition of their being retained, deemed to be "fiduciaries" to FRS and they must act as investment managers, governed by all applicable provisions of Louisiana law and the investment policies and guidelines set forth herein. (see R.S. 11:264)

FRS operates pursuant to the "prudent man" rule, which requires the exercise of care, skill, prudence, and diligence under the circumstances prevailing that a prudent institutional investor 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. (see R.S. 11:263, et seq.)

The board in accepting its responsibilities has established these investment policies and objectives to assist in the overall administration of FRS assets. The objective of this document is to establish and communicate the long-term goals and objectives of the system to investment managers and other interested parties. In addition, this document formalizes the responsibilities and guidelines for FRS trustees and the professionals retained by the board to assist in the investment process and defines the performance measurement and evaluation process.

BASIC INVESTMENT PHILOSOPHY AND GOALS

The basic investment philosophy of the board is to invest and reinvest FRS assets to achieve the actuarially determined rate of return on investment assets to ensure the availability of funds needed to provide the mandated benefits to FRS participants, while exposing the system's assets to the least amount of risk possible consistent with the required return objective. A second and subordinate objective of the board will be the preservation of the system's principal. In pursuit of this policy the board and its investment professionals shall:

- (1) Act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent institutional investor acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
- (2) Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered; and
- (3) Fully conform to the provisions of the statutes of the state of Louisiana, including all amendments thereto.

The investment portfolio may consist of fixed income securities and equities, including convertible securities.

It is the aim of the board that the overall investment portfolio will gain on a consistent basis a return equal to or greater than the annual actuarially assumed interest rate over a time period comparable to that used by the actuary to smooth returns. This return is to be attained from interest, dividends, and net realized and unrealized capital gains.

Consistency is of supreme importance and it is to be achieved by an insistence upon high standards of quality and by a weighting of the portfolio among asset classes that reflects a judicious evaluation of the current and prospective rates of market return.

Consistency is of such importance, that the board may under prudent circumstances be willing to accept an investment performance ranking below the median of comparable retirement funds during rising securities markets in exchange for decidedly superior performance during falling or declining securities markets.

The board and its investment managers recognize that the goal of achieving or exceeding the actuarially assumed interest earnings rate may not be attained every year due to the dynamics of the securities markets. However, that goal should be attained over a full economic cycle (normally 3-5 years).

Total Fund Return. Over this cycle it is expected that the investment return realized on the total portfolio will exceed the median return for a comparable universe of retirement systems.

Individual Manager Return. Over the same cycle it is also expected that the performance rank of each manager will range between the first and forty-ninth percentile and will exceed the return (net of fees) of a comparable market index.

In furtherance thereof, the investment consultant shall provide monthly, quarterly, and end of fiscal-year reports summarizing the fund's performance as compared to these stated goals. Due to the limited availability of universe data, peer group performance comparisons are not required to be provided on a monthly basis.

A letter placing a manager on "watch" status shall be issued to any manager whose performance is below his assigned index as measured over the trailing 3 year and 5 year periods, as shown in the monthly flash report published by the investment consultant and based on asset valuations furnished by the custodial bank. In addition thereto, any manager shall automatically be placed on "watch" status and a letter issued to that effect if either of the following conditions exists: (1) His performance is in the bottom quartile of his peer group for the prior three year period, or (2) His performance is below median compared to his peer group as measured for the prior five year period.

It is the policy of the board, provided all investment factors are equal and within the limits of prudence, that investments in Louisiana securities are encouraged as well as the use of Louisiana based investment managers.

PARAMETERS OF PORTFOLIO CONSTRUCTION

It is the policy of the board, subject to review and modification when deemed appropriate, to designate not less than 25% of the market value of the portfolio for publicly traded, highly liquid investments, and not more than 65% of the portfolio for equity investments as that term is used in the LA Revised Statutes. Furthermore, should the allocation to equity investments exceed 55% of the portfolio, then at least 10% of the equity allocation will be invested in one or more index funds. Allowable ranges and normal policy weightings are as follows:

| | RANGE |
|--------|--------|
| CASH | 0-25% |
| BONDS | 10-75% |
| STOCKS | 10-65% |
| Other | 0-40% |

The FRS asset custodian shall agree to handle the short-term investments of the fund. Such investments must be permitted by the statutes of the state of Louisiana as applicable to public retirement funds and may include but are not necessarily limited to obligations of the U.S. Treasury, certificates of deposit, and commercial paper. Funds available for short-term investments may include proceeds from the sale of bonds or equities, interest and dividend income and new contributions to the fund. The FRS asset custodian shall agree to invest such funds within one business day of their availability.

It is the board's policy to allow managers to hold cash balances as a defensive posture against market declines, but managers will be evaluated on the performance of their total allocation, including cash.

The investment managers have discretion to buy and sell securities within these parameters.

FIXED INCOME INVESTMENT POLICY

Notes and bonds will be utilized in this portfolio for income, price appreciation and for their defensive characteristics.

It is imperative that the bond portfolio be of investment quality. The investment managers are therefore to purchase only bonds issued by the Federal Government and its agencies, mortgage-backed securities and corporate bonds rated "Investment Grade" (BAA or better) by a nationally recognized credit rating agency, unless the board of trustees approves an exception to that requirement. The average quality of the portfolio must be at least "A". The purchase of high yield bonds is permitted if so stated in the investment guidelines for that manager. The purchase of preferred stocks is permitted provided the underlying equity is of adequate quality. Marketability is extremely important; thus, all bonds purchased must be issued with an outstanding amount of at least \$25 million par value.

No single holding other than a U.S. Government or a U.S. Government agency bond or note is to account for more than 5% of the market value of the system's total portfolio. Nor shall the bonds of any one issuer, other than the U.S. Government or its agencies, account for more than 10% of the market value of the system's total portfolio.

It is also expected that the bond portfolio will be subject to active management in the interest of achieving maximum total return within appropriate quality constraints. Specific guidelines will be established for each manager and shall be incorporated into the contract between FRS and the manager.

EQUITY INVESTMENT POLICY

The equity portfolio is to be managed on a total return basis; that is, equities will be selected on the basis of their anticipated return from the combination of dividends and market appreciation within a three to five year horizon.

The equity portfolio is to be constructed on four fundamental building blocks: (1) diversification, (2) market capitalization, (3) geography, and (4) currency. The equity portfolio may be concentrated in securities that appear to represent particularly attractive value but the portfolio must be adequately diversified. No single equity holding is to account for more than 12% of the market value of any manager's total portfolio.

All domestic equities purchased by the fund shall be registered on a national securities exchange regulated under Title I of the Securities Exchange Act of 1934, or on the National Association of Securities Dealers Automated Quotation System. All international equities purchased by the managers for the system shall be common stock of publicly traded companies on recognized trading exchanges and be readily marketable securities offering potential for above-average growth.

Specific guidelines will be established for each manager and shall be incorporated into the contract between FRS and the manager.

The allocation objective of the FRS portfolio is to participate in all capitalization sectors of the equity market. To the extent practical, FRS shall:

- (1) Maintain equity holdings in large, middle, and small capitalization securities.
- (2) The core equity managers shall be selected in such a manner that the equity portfolio has reasonable exposure to the "growth" and "value" styles.

Investment managers shall vote all proxies on behalf of and in the best interest of FRS. Each investment manager shall promptly advise the FRS board regarding any issue that requires special consideration.

RESTRICTED TRANSACTIONS

Any security may be purchased by a manager, provided that the purchase is consistent with the underlying principles of the "prudent institutional investor" rule and, further provided, that the purchase is not prohibited by any provision of law or this policy. No derivative securities may be used which would have the effect of leveraging the portfolio or exposing it to risks inconsistent with the spirit of the guidelines and the conservative investment philosophy of this fund. As such, any use of derivatives must be explained in the manager's investment guidelines.

Short selling and the purchase of securities on margin are prohibited, unless expressly approved in the manager guidelines.

COMMUNICATION

The board and its retained professionals recognize that frequent communication between the parties is a keystone to appropriate management of the fund.

Recognizing the dynamic nature of the capital markets, it is the obligation of the retained professionals to promptly report to the board any suggestions or alterations in their guidelines considered desirable for the achievement of satisfactory investment results. Revisions will be considered from time to time.

The FRS board requires the following reports to be provided by the indicated professionals that are retained to assist the board in its investment process:

A. Investment Managers-

- (1) A timely notification/confirmation of all transactions shall be provided to the FRS custodial bank.
- (2) A monthly statement of asset values at cost and market.
- (3) A quarterly summary of performance with comparison to appropriate market performance indices.
- (4) A quarterly summary of performance with comparison to the objectives and goals outlined in their policy statements.
- (5) In addition to providing these written reports, the investment managers are obligated to make periodic personal appearances before the board.
- (6) Each manager is responsible for notifying the FRS board of any material change in personnel, investment strategy, or other pertinent information that effects or has the potential to effect the manager's performance.
- (7) Each investment manager shall agree, as a condition of being retained by FRS, to provide notice to the system whenever the manager is in violation of any provision of this policy. Notice shall be provided within forty-eight hours of any such violation or by the date of the next board meeting, whichever comes first. The manager shall also provide information concerning the manager's planned course of action to return to compliance with this policy and the timing of any such action.

B. Investment Consultant-

- (1) A quarterly summary of manager performance with comparison to the appropriate market and peer performance indices.
- (2) A quarterly summary of performance with comparison to the objectives and goals outlined in this policy statement.
- (3) A monthly executive summary of total fund and individual manager performance relative to the pertinent market indices and goals stated in this policy statement.
- (4) A report regarding portfolio diversification.
- (5) A report regarding the outlook for expected returns by asset class and any recommendations regarding asset allocation decisions.

C. Custodian-

- (1) A monthly statement reporting the value of all assets at cost and market.
- (2) A monthly summary of all portfolio transactions by manager.
- (3) A quarterly summary of brokerage commissions paid on transactions by manager.

TRUSTEES RESPONSIBILITY

Participation in the affairs of any public body demands a high level of personal integrity and conduct. This is especially true when wise utilization of the funds of others is involved. Members of the board must discharge their responsibilities without prejudice or favor, avoiding at all time any conduct which would create a conflict of interest.

Staff members shall carry out the duties and responsibilities delegated by the board in the best interest of members of FRS. No staff member shall engage in any activity in his official position or in a personal investment program which will in any way create a conflict of interest.

Trustees must possess the knowledge and skill necessary to discharge their responsibilities to the system and thus shall adhere to all continuing education requirements prescribed by law or this policy.

CONTROL PROCEDURES

All major liability assumptions regarding the number of plan participants, payroll, benefit levels, and actuarial assumptions will be subject to an annual review. This review will focus on an analysis of the major differences between the system's assumptions and actual experience.

The achievement of investment objectives will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives. It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the investment policy.

The board will meet with its investment managers as deemed appropriate based upon the manager's performance, market conditions or other events or activities that may require explanation. Additionally, with or without the investment managers, the board will review the investment results at least monthly.

These reviews will focus on:

- (1) Manager adherence to the policy guidelines.
- (2) A comparison of manager results versus appropriate indices.
- (3) Manager results compared to a universe of peer managers.
- (4) Material changes in the manager organizations, such as investment philosophy, personnel changes, acquisitions, or losses of major accounts, etc.

EXECUTION

Approved by the FRS Board of Trustees this 21st day of May, 2009.

ATTEST:

Charlie Fredieu, FRS Board Chairman

Steven Stockstill, FRS Exec. Director