

**INVESTMENT POLICY STATEMENT**

**For**

**CITY OF AUSTIN POLICE RETIREMENT SYSTEM**

**APPROVED BY THE BOARD OF TRUSTEES**

**On**

**November 18, 2020**

## **Austin Police Retirement System Investment Policy Statement**

### **I. PURPOSE OF INVESTMENT POLICY STATEMENT**

The Board of Trustees (the "Board") maintains that an important determinant of future investment returns is the expression and periodic review of the Austin Police Retirement System (the "Plan") investment objectives. To that end, the Board has adopted this statement of investment policy and directs that it apply to all assets under its control. Based on the size of the Plan and frequency of meetings, the Investment Committee of the Board of Trustees (the "Investment Committee") will review the investments of the Plan and offer recommendations to the full Board regarding design and general administrative issues pertaining to the investments of the Plan.

In fulfilling their fiduciary responsibility, the Board recognizes that the Plan is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Board also recognizes that the obligations of the Plan are long-term and that the investment policy should be constructed with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains or losses - commensurate with its fiduciary duties under Texas law and any other applicable statutes.

Reasonable consistency of return and protection of assets against the inroads of inflation is paramount. However, interest rate fluctuations and volatility of securities markets make it necessary to judge results within the context of several years rather than over short periods of five years or less.

The Board will employ investment professionals to oversee and invest the assets of the Plan. Within the parameters allowed in this document and their agreements with the Board, the investment management professionals shall have investment discretion over their mandates, including security selection, sector weightings and investment style.

The Board, in performing their investment duties, shall comply with Article 6243n-1 Vernon's Annotated Texas Civil Statutes, Article IX, Section 9.01 and other applicable Texas law.

## **II. TARGET ALLOCATIONS**

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the Plan. The Investment Manager(s) are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria. The Board has established long term asset allocation targets and ranges for the total Plan which can be found in Attachment B of this document:

The Board, with assistance from the Investment Consultant, will monitor the aggregate asset allocation of the portfolio, and will rebalance to the target asset allocation based on market conditions. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed proportionally based on the most current market values available and with reasonable notice provided to the Investment Managers. The Board does not intend to exercise short-term changes to the target allocation.

## **III. INVESTMENT PERFORMANCE OBJECTIVES**

The following performance measures will be used as objective criteria for evaluating the effectiveness of the Investment Managers and the overall investment performance of the Plan.

### **A. Total Portfolio Performance**

1. The performance of the total portfolio will be measured for rolling three (3) and five (5) year periods. The performance of the total portfolio will be compared to a customized market index comprised of 42.5% Russell 3000, 15% MSCI ACWI ex US, 5% Bloomberg Barclays Aggregate, 5% Bloomberg Barclays Global Credit, 15% NCREIF NPI, 12.5% Asset Specific (Private Investments), and 5% HFRI FOF.
2. On a relative basis, it is expected that the total portfolio performance will rank in the top 50<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.
3. On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumption (7.25%) over the long term. This absolute return objective will be evaluated in the context of the prevailing market conditions.

### **B. Equity Performance**

The combined equity portion of the portfolio, defined as common stocks and convertible bonds, is expected to perform at a rate at least equal to a blended index comprised of 75% Russell 3000 and 25% MSCI ACWI ex US index. Individual components of the equity portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum, Attachment A, along with Attachment B. All portfolios are expected to rank in the top 50<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.

### C. Fixed Income Performance

The overall objective of the fixed income portion of the portfolio is to add stability to the total portfolio. The fixed income portion of the portfolio is expected to perform at a rate at least equal to a blended index comprised of 50% Bloomberg Barclays Aggregate Bond Index and 50% Bloomberg Barclays Global Credit. Individual components of the fixed income portfolio will be compared to the specific benchmarks defined in each Investment Manager addendum, Attachment A, along with Attachment B. All portfolios are expected to rank in the top 50<sup>th</sup> percentile of the appropriate peer universe over three (3) and five (5) year time periods.

### D. Real Estate Performance

The overall objective of the real estate portfolio is to add diversification, another stable income stream and the possibility of enhanced returns to the total portfolio. The real estate portion of the portfolio, defined as operating, substantially leased properties or, open-ended core private real estate funds, is expected to perform at a rate similar to the NCREIF Property Index (NPI) over the three (3) and five (5) year time periods.

### E. Timber Performance

The overall objective of the timber portfolio if utilized is to reduce the volatility of the total portfolio and enhance returns. The timber portion of the total portfolio is expected to perform at a rate similar to the NCREIF Timber Index over the three (3) and five (5) year time periods and as outlined in the manager addendums.

### F. Private Investment Performance

The overall objective of the private investment portion of the portfolio if utilized is to reduce the volatility of the total portfolio and enhance returns. The private investment portion of the total portfolio is expected to exceed benchmarks chosen for each specific investment.

### G. Multi Asset Class Performance

The overall objective of the multi asset class portion of the portfolio is to reduce the volatility of the total portfolio and enhance returns. The multi asset class portion of the portfolio is expected to perform at a rate at least equal to the benchmarks chosen for each specific investment.

## IV. INVESTMENT GUIDELINES

### A. Authorized Investments

#### 1. Equities

- a. Investments in equity securities must be traded on a national exchange or electronic network.
- b. No more than 5% of the total Plan's assets may be invested in the common stock, capital stock or convertible stock of any one issuing company. In addition, the aggregate investment in any one company shall not exceed 5% of the outstanding capital stock of that company.
- c. No more than 15% of the Plan's assets, at the time of purchase, may be invested in the shares of companies that have been publicly traded for less than one year.

- d. If expressly permitted in the individual mandate of the Investment Manager, investments may be traded on a government regulated Canadian exchange which exchange is also a participant in the Canadian Securities Administrators. The investment on Canadian exchanges shall be limited to 5% of the portfolio at cost.
2. Fixed Income
    - a. No more than 5% of the Plan's total assets may be invested in the securities of any single corporate issuer.
3. Real Estate
    - a. Investments in real estate strategies shall not exceed 30% of the market value of the total Plan assets.
    - b. The Board will seek to diversify its real estate investments by investment strategy, property type (multi-family residential, industrial, office, retail, timberland, etc.) and property location (geographic region).
    - c. All real estate investments shall be managed by experienced and qualified professional real property investment managers.
4. Alternative Investments
    - a. The Plan may invest in limited partnerships and/or private equity structures in order to diversify the Plan's portfolio and/or to enhance the Plan's return opportunities. It is understood that these types of investments may have limited liquidity and/or "lock-up" periods with no liquidity. It is also recognized that these types of investments may have higher fees and demonstrate highly variable returns over short periods of time. Given the factors previously listed, the Board shall consider special criteria including, but not limited to, the following in evaluation of any investments in this category:
      - Tenure, expertise and track record of management team;
      - Diversification potential of the alternative investment relative to other Plan investments;
      - Risk control provisions of the alternative investment;
      - Liquidity provisions of the alternative investment;
      - Use of leverage or other means of return enhancement by the alternative investment;
      - Fees and potential conflicts of interest associated with the alternative investment.
5. Cash Equivalent Securities
    - a. The Investment Managers may invest only in the money market(s) or short-term investment fund (STIF) provided by the Plan's custodian.
6. Pooled Funds:
    - a. Investments made by the Plan may include pooled funds. For purposes of this policy, pooled funds may include, but are not limited to, mutual funds, commingled funds, exchange-traded funds, limited partnerships and private equity.
    - b. Pooled funds may be governed by separate documents which may include investments not expressly permitted in this investment policy. In the event of investment by the Plan into a pooled fund, the prospectus or governing policy of that

pooled fund, as updated from time to time, shall be treated as the Investment Manager addendum to this Investment Policy Statement and included as Attachment A. The Investment Consultant shall periodically review with the Board any material changes in the prospectus or governing policy of a pooled fund.

7. Securities Lending:

- a. This is strictly prohibited with all separate account managers and any account utilized with the Plan Custodian. Some pooled funds may permit securities lending within their vehicle structure as outlined in Section IV. A. 6. In those instances where pooled funds are utilized, this practice may be employed as outlined in the offering documents or prospectus.

8. Trading Parameters:

- a. When feasible and appropriate, all securities shall be competitively bid. Except as otherwise required by law, the most economically advantageous bid shall be selected. Commissions paid for purchase of securities must meet the prevailing best-execution rates. The responsibility of monitoring best price and execution of trades placed by each Investment Manager on behalf of the Plan will be governed by the Portfolio Management Agreement between the Plan and the Investment Manager.

9. Limitations

- a. Investments in equity & equity equivalent securities shall not exceed 80% of the market value of the Plan's assets.
- b. Any investment not specifically allowed as part of this policy.

## **V. RESPONSIBILITIES OF THE BOARD OF TRUSTEES**

The Board shall have the following responsibilities:

- A. Act as a fiduciary to the System
- B. Manage the assets for the exclusive benefit of the members of the Plan;
- C. Establish prudent investment policies defining investment objectives and strategies;
- D. Seek to maximize investment return while maintaining the safety of principal;
- E. Diversify the assets to reduce risk of loss;
- F. Ensure that investment performance is monitored and documented;
- G. Efficiently manage the costs associated with implementation of its investment program; and
- H. Consider recommendations of the Investment Committee.

## **VI. RESPONSIBILITIES OF THE INVESTMENT COMMITTEE**

The Investment Committee is composed of five Board members and two alternate members. In general, the Investment Committee will be responsible for preparing and maintaining an Investment Policy for approval by the Board and making recommendations on the investment programs of the Plan, including specific actions to achieve its investment goals and objectives.

The Investment Committee shall have the following responsibilities:

- A. Act as a fiduciary to the System
- B. Monitor the Plan's compliance with the Investment Policy and report to the Board as appropriate;
- C. Monitor asset allocation to individual asset classes utilized in the investment programs;
- D. Review the performance of each asset class within the investment programs;
- E. Review Investment Manager and fund performance;
- F. Conduct due diligence activities concerning the selection of investment managers, funds and consultants to ensure that their engagement is consistent with the policies of the Board;
- G. Make recommendations with respect to the appointment of the following service providers;
  - 1. Investment managers and funds;
  - 2. Investment consultants; and
  - 3. Custodian banks
- H. Review the expenses and net of fee performance of the investment programs; and
- I. Review the performance and independence of the Investment Consultant.

## **VII. RESPONSIBILITIES OF THE EXECUTIVE DIRECTOR**

The Executive Director is delegated full authority and responsibility by the Board in the implementation and administration of its investment programs subject to Board policies, rules, regulations, and directives consistent with constitutional and statutory limitations.

Under the authority of the Board, the Executive Director will carry out the following duties:

- A. Act as a fiduciary to the System
- B. Ensure appropriate monitoring of the custodial bank's investment related activities including securities lending, cash management and manager reconciliations. Oversee the recording of values and reconciliations between the custodial bank, the investment consultant, and the individual managers.
- C. Act as the primary liaison for the Board with outside investment consultant(s).
- D. Coordinate regularly with the investment consultant to review portfolio values, performance and management fees. This includes discussions related to potential asset value changes that may be recommended by the consultant.
- E. Coordinate with the investment consultant in determining manager presentations to the Board, from both current and potential managers.
- F. Execute contracts and other legal documents with managers on behalf of the Board, coordinating review with legal counsel.
- G. Review and approve payment of management fees if directly paid.
- H. Respond to investment related media inquiries

#### **VIII. RESPONSIBILITIES OF THE INVESTMENT CONSULTANT**

The Board shall use a third party investment consultant who will serve as a fiduciary to the Plan and will work with the Investment Committee or the full Board as needed to:

- A. Act as a fiduciary to the System
- B. Assist in developing investment policies and objectives and appraising investment performance,
- C. Provide performance comparison data as requested,
- D. Assist in evaluating advisor style discipline and peer comparisons,
- E. Perform manager and fund searches and perform ongoing manager evaluation through conducting appropriate due diligence,

- F. Perform manager and fund evaluations as appropriate and recommend replacement managers as necessary,
- G. Perform asset allocation studies and make appropriate recommendations, and
- H. Other duties the Board or Investment Committee deems appropriate.

## **IX. RESPONSIBILITIES OF INVESTMENT MANAGERS**

Each Investment Manager shall satisfy its fiduciary duties under Texas law and utilize the same due care, skill, prudence and diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity, as a fiduciary, and fully familiar with such matters would use in like activities for like plans with like aims, while maintaining appropriate diversification to avoid the risks of large losses, in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.

The duties and responsibilities of each of the registered Investment Managers retained by the Board include managing the assets under its management in accordance with the policy guidelines and objectives expressed herein in addition to any separate written agreement with the Plan.

## **X. COMMUNICATIONS**

- A. On a monthly basis, the Custodian shall supply the Investment Consultant and APRS staff with an accounting statement that will include a summary of all receipts and disbursements and the cost and the market value of all assets.
- B. On a quarterly basis, the Investment Managers shall provide a written report affirming compliance with the security restrictions of Section IV (as well as any provisions outlined in the Investment Manager's addendum). In addition, the Investment Managers shall deliver a report each quarter detailing the Plan's performance, forecast of the market and economy, portfolio analysis and current assets of the Plan. Written reports shall be delivered to the System within 30 days of the end of the quarter. The Investment Managers will provide immediate written notice to the System via the Investment Consultant of any significant market related or non-market related event, specifically including, but not limited to, any deviation from the standards set forth in Section IV or their Investment Manager addendum.
- C. If an Investment Manager owns investments that complied with Section IV or their Investment Manager addendum at the time of purchase, which subsequently exceed the applicable limit or do not satisfy the applicable investment standard, such excess or noncompliant investments may be continued until it is economically feasible to dispose of such investment in accordance with fiduciary duties under Texas law and the prudent investor standard of care, but no additional investment may be made unless authorized by applicable law. In addition, an action plan outlining the investment 'hold or sell' strategy shall be provided to the Board immediately.

- D. The Investment Consultant shall evaluate and report on a monthly basis the rate of return net of investment fees and relative performance of the Plan as outlined in Section III.
- E. The Board will meet periodically to review the Investment Consultant performance report. The Board will meet with the Investment Manager and appropriate outside consultants to discuss performance results, economic outlook, investment strategy and tactics and other pertinent matters affecting the Plan on a periodic basis.
- F. At least annually, the Board shall provide the Investment Managers with projected disbursement needs of the Plan so that the investment portfolio can be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. To this end, the Investment Managers should, to the extent possible, attempt to match investment maturities with known cash needs and anticipated cash-flow requirements.
- G. When dealing with matters which are time sensitive and in the best interest of the Plan and require action prior to the next scheduled Board meeting, decisions can be made for the transactions of the Board's business on matters pertaining to existing investments by consensus opinion of the Investment Committee Chair, Board Chair, Board Vice-Chair and consultation with the appropriate third party professionals. Any such decision will be reported to the full Board at the next Board meeting.

## **XI. COMPLIANCE**

- A. It is the direction of the Board that the Plan assets are held by a third party custodian, and that all securities purchased by, and all collateral obtained by the Plan shall be properly designated as Plan assets. No withdrawal of assets, in whole or in part, shall be made from safekeeping except by an authorized member of the Board or their designee. Securities transactions between a broker-dealer and the Custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis to insure that the Custodian will have the security or money in hand at conclusion of the transaction.
- B. At the direction of the Board, operations of the Plan shall be reviewed by independent certified public accountants as part of any financial audit periodically required. Compliance with the Board's internal controls shall be verified. These controls have been designed to prevent losses of assets that might arise from fraud, error, or misrepresentation by third parties or imprudent actions by the Board or employees of the Plan, to the extent possible.
- C. Each member of the Board shall participate in a continuing education program relating to investments and the Board's responsibilities to the Plan. It is highly suggested that this education process begin during each Trustee's first term.
- D. The Securities Litigation Policy is outlined in a separate policy approved by the Board.
- E. The proxy votes must be exercised for the exclusive benefit of the participants of the Plan. On a regular basis, at least annually, each Investment Manager shall report a record of their proxy vote and include in the quarterly presentation book provided to the Plan.

## **XII. CRITERIA FOR INVESTMENT MANAGER REVIEW**

The Board wishes to adopt standards by which judgments of the ongoing performance of a portfolio Investment Manager may be made. If, at any time, any three (3) of the following is breached, the portfolio Investment Manager may be warned of the Board's serious concern for

the Plan's continued safety and performance. If any five (5) of these are violated, the Investment Consultant may recommend a manager search for that mandate.

- Four (4) consecutive quarters of relative under-performance versus the benchmark.
- Three (3) year trailing return below the top 50<sup>th</sup> percentile within the appropriate peer group and under performance versus the benchmark.
- Five (5) year trailing return below the top 50<sup>th</sup> percentile and under performance versus the benchmark.
- Three (3) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Five (5) year downside volatility greater than the index (greater than 100), as measured by down market capture ratio.
- Style consistency or purity drift from the mandate.
- Management turnover in portfolio team or senior management.
- Investment process change, including varying the index or benchmark.
- Failure to adhere to the Plan's investment policy, Investment Manager addendum or other compliance issues.
- Investigation of the firm by the Securities and Exchange Commission (SEC) or other regulatory agency.
- Significant asset flows into or out of the company or strategy.
- Merger or sale of firm.
- Fee increases outside of the competitive range.
- Servicing issues – key personnel stop servicing the account without proper notification.
- Failure to attain a majority vote of confidence by the Board.

Nothing in this section shall limit or diminish the Board's right to terminate the Investment Manager at any time for any reason.

### **XIII. APPLICABLE LAW**

All separate account investment management agreements shall include a provision in which the Investment Manager acknowledges that it has a fiduciary duty to the Austin Police Retirement System and all agreements shall be governed by applicable Texas law. Each agreement shall provide for dispute resolution to have venue in appropriate state or federal court in Austin, Texas. For those Investment Managers where separate account investment management agreements cannot be drafted, the subscription documents, offering memorandums, prospectuses or other alternative agreements must state the Investment Manager will be a fiduciary to the Plan or underlying fund/investment vehicle. Also, Board legal counsel will draft a side letter incorporating as much legal protection as possible to protect the Plan and the current Trustees.

In the event this policy conflicts with any applicable state statutes, the statutes will prevail. In all cases, the state statutes will govern this document.

**XIX. REVIEW AND AMENDMENTS**

It is the Board's intention to review this document at least annually subsequent to the actuarial report and to amend this statement to reflect any changes in philosophy, objectives, or guidelines. In this regard, each Investment Manager's interest in consistency in these matters is recognized and will be taken into account when changes are being considered. If, at any time, an Investment Manager feels that the specific objectives defined herein cannot be met, or the guidelines constrict performance, the Board should be notified in writing. By initialing and continuing acceptance of this Investment Policy, the Investment Managers concur with the provisions of this document. By signing this document, the Chairman of the Board attests that this Investment Policy has been recommended by the Investment Consultant, reviewed by the Plan's legal counsel for compliance with applicable law, and approved by the Board.

**Austin Police Retirement System  
Adopted November 18, 2020**

  
\_\_\_\_\_  
Tyler Link  
Chairman, Board of Trustees

\_\_\_\_\_  
Date

\_\_\_\_\_  
Keith Harrison  
Investment Committee Chairman, Board of Trustees

\_\_\_\_\_  
Date

\_\_\_\_\_  
Pattie Featherston  
Executive Director, Board of Trustees

\_\_\_\_\_  
Date

**ATTACHMENT A – MANAGER ADDENDUM**

**Investment Guidelines for SAMPLE MANAGER**

*The investment objectives and guidelines for the assets managed by SAMPLE MANAGER ("MANAGER") for Austin Police Retirement System are defined in this Addendum and the Statement of Investment Policy, Objectives, and Guidelines (the "Investment Policies"). The manager is instructed to incorporate these guidelines into their investment policy. Should any restriction within these investment policies reduce the manager's ability to outperform the stated goals, the manager shall notify the Retirement System immediately.*

**Specific Investment Goals**

Over the investment horizon established in the investment policy statement, it is the goal of the assets managed by **MANAGER** to meet or exceed the return of **SAMPLE INDEX**

**Risk**

**MANAGER** is expected to meet its objectives with a level of risk which is commensurate with the risk associated with the index stated above and the manager's excess return relative to the index.

**Asset Allocation Guidelines**

<u>Asset Class/Style</u>	<u>Target %</u>
<b>Manager's Class/Style</b>	100%

Contacts: **MANAGER**

Phone Number: (555) 555-1212

I/We understand and accept the Statement of Investment Policy and this Addendum, acknowledge my/our status as an Investment Fiduciary, and will manage the Austin Police Retirement System assets accordingly.

\_\_\_\_\_  
Investment Manager (Signature)/Title

\_\_\_\_\_  
Date

**ATTACHMENT B**  
**Asset Allocation Implementation by Manager Styles**

<b>Asset Class</b>	<b>Min</b>	<b>Target</b>	<b>Max</b>
<b>Domestic Equity*</b>	<b>30%</b>	<b>42.5%</b>	<b>50%</b>
<i>US Broad Market Index</i>	20%	25%	30%
<i>US Midcap Equity</i>	7.5%	12.5%	17.5%
<i>US Small Cap Equity</i>	0%	5%	10%
<b>International Equity</b>	<b>5%</b>	<b>15%</b>	<b>25%</b>
<i>Broad ACWI x-US Core</i>	5%	10%	15%
<i>ACWI x-USA Small Cap</i>	0%	2.5%	5%
<i>Emerging Markets Equity</i>	0%	2.5%	5%
<b>Other Equity*</b>	<b>0%</b>	<b>7.5%</b>	<b>10%</b>
<b>Total Fixed Income</b>	<b>5%</b>	<b>10%</b>	<b>30%</b>
<i>US Core Fixed Income^</i>	5%	5%	20%
<i>Non-US Fixed Income</i>	0%	5%	15%
<b>Other Fixed Income^</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
<b>Real Estate</b>	<b>0%</b>	<b>15%</b>	<b>30%</b>
<i>Open Ended Core Real Estate (Private)</i>	0%	5%	15%
<i>Private Equity Real Estate Value Add /Opportunistic</i>	0%	10%	15%
<b>Timber</b>	<b>0%</b>	<b>0%</b>	<b>5%</b>
<b>Multi Asset Class</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
<b>Short Term/Cash</b>	<b>0%</b>	<b>0%</b>	<b>5%</b>
<b>TOTAL</b>		<b>100%</b>	

\*Unfunded Other Equity commitments will default to US equity for rebalancing purposes.

^Unfunded Other Fixed Income commitments will default to US Core Fixed Income.