City of Annapolis Police and Fire Retirement Plan

INVESTMENT POLICY STATEMENT

Revised and Adopted
November 29, 2017

INTRODUCTION

The purpose of this document is to set out the long-range investment goals and short term cash needs of the City of Annapolis Police and Fire Retirement Plan (the "Plan"), establish the overall asset mix of the Plan, and describe the structure of and guidelines for the investment managers.

Assignment of Responsibilities

Police and Fire Retirement Plan Commission:

The Police and Fire Retirement Plan Commission (Commission), with the advice and recommendations of the Investment Consultant, is responsible for the following:

- Creating this Investment Policy Statement (Policy).
- Selecting investment managers and allocating assets among these managers.
- Providing Investment Consultant with all relevant information on the Plan's financial condition and risk tolerances. The Commission shall notify Consultant promptly of any changes to this information.

Investment Managers:

Each Investment Manager has full discretion to make all investment decisions for assets placed under its control, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Policy. The Investment Managers are responsible for the following:

- Discretionary investment management including decisions to buy, sell, or hold individual securities.
- Diversifying portfolio assets under the Investment Managers' control within the Investment Manager's strategy to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.
- Quarterly reporting on their investment strategy and performance. The report shall show any management fees and commissions paid during the quarter.
- Communicating significant items to the Commission and Investment Consultant. Significant items include but are not limited to the following: any litigation, investigations or disciplinary action by any private, regulatory or governmental body, changes in organizational structure, ownership, financial condition, portfolio manager structure, investment strategy and key personnel of the firm. Notice shall be given by the Investment Managers as soon as practicable. The Investment Managers shall provide any other pertinent information that might be material to the Plan upon request by the Commission and/or the Investment Consultant as soon as practicable.
- Separate account managers are required to notify the Commission in writing, if in their judgment, it is imprudent to manage the Plan's assets within any of these guidelines to the extent required under the Investment Management Agreement.
- Meeting with the Commission periodically to discuss their investment results as well as the objectives and policies which influence the results achieved in the account that they manage on behalf of the Plan.

Investment Consultant:

The Investment Consultant is responsible for the following:

- Developing and maintaining this Policy in conjunction with the Commission.
- Developing, implementing and maintaining with the Commission an appropriate asset allocation structure consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this Policy.
- Educating the Commission on asset classes and investment topics.
- Identifying and performing due diligence on investment manager(s) within each asset class and making recommendations to hire, fire, or place individual managers on a watch list.
- Preparing quarterly performance measurement reports and flash reports as requested by the Commission which include but are not limited to the following analysis:
  - Review of Plan's current asset allocation structure versus Policy guidelines.
  - Total Plan and Investment Manager performance results vs. appropriate custom index and manager specific benchmarks.
  - Investment manager portfolio characteristics and risk analysis. If Investment Consultant believes the portfolio characteristics indicate that the Investment Manager is drifting away from the Manager's stated discipline, the Investment Consultant will make the Commission aware of the style drift.
- Making recommendations on revisions to asset classes, adding asset classes or deleting asset classes.
- Making recommendations with respect to the appropriate index to use to evaluate each Investment Manager's performance and the performance of the Plan.
- Reporting on Commingled Investment Vehicles: Commingled investment vehicles may be used if approved in writing by the Commission. To the extent assets are placed in a commingled vehicle, it is understood that the practices of such commingled vehicle will be in accordance with the vehicle's controlling documents.

  On a quarterly basis, the Investment Consultant will review the characteristics and investment strategy of each commingled vehicle to confirm that the vehicle is being managed consistent with its stated discipline.
- Recommending changes to this Policy.
- Meeting with the Commission periodically to review and explain the Plan's investment results and any related issues.
- Notifying the Commission immediately in writing if this Policy or its application to the Plan is no longer considered prudent by the Investment Consultant.

TOTAL PLAN PERFORMANCE

The Plan's asset mix detailed below was designed to provide a high likelihood of producing a rate of return sufficient to meet or exceed the following objectives over a rolling 10-year period:

- The Plan's actuarial interest assumption.
- The Plan's custom benchmark return that is consistent with the Plan's current and historical asset allocation structure.

The Commission recognizes that all investments go through cycles and therefore there will be periods of time in which the investment objectives will not be met or when specific managers will fail to meet their expected performance expectations. The Commission accepts the principle that, in the absence of specific circumstances requiring immediate action, patience and a longer-term perspective will be employed when evaluating investment performance.

LIQUIDITY

At times, contributions may not cover the benefits and expenses of the Plan. Consequently, it may be necessary from time to time to withdraw cash from the Plan's manager accounts to cover these liabilities.

Periodically, the Plan's staff will estimate the amount of cash needed to meet the Plan's expenditures. The Investment Consultant will recommend to the Plan's staff the means by which liquidity should be provided in order to improve compliance with the Plan's asset allocation targets as detailed above. The Plan's staff will then transfer assets from the Plan's various investment manager accounts to the Plan custodian's short-term investment fund. Payments will be made from that account.

INVESTMENT MANAGER SELECTION/RETENTION CRITERIA

Investment managers (including mutual funds, separate account managers, limited partnerships, etc.) shall be chosen and evaluated on an ongoing basis using the following criteria:

- Past performance relative to other investment managers having the same or similar investment objective. Consideration shall be given to both performance rankings over various time periods and consistency of performance.
- Historical volatility and downside risk.
- How well the investment manager's style and strategy complements the styles and strategies of the other investment managers in the Plan.
- The likelihood of future investment success, relative to other opportunities.
- Costs relative to other investment managers with like objectives and investment style.
- The investment manager's adherence to its stated investment style.
- History and organizational strength of the investment manager, including but not limited to the following: tenure, depth and experience of investment professionals; stability of personnel; organizational structure to manage assets, service clients and run the business; firm ownership; breadth of products managed; and legal issues.
- The current economic environment.

ASSET VALUATIONS

The Commission acknowledges that it has a fiduciary obligation to ensure that the Plan is valued in a timely, frequent and accurate manner. The Commission will therefore take the necessary steps to ensure that the effective policies and procedures are in place to achieve this objective. The appropriate policies and procedures will be determined based on the investments' unique characteristics, regulatory requirements and accounting standards. For marketable investments, the Commission will appoint an independent entity, such as a custodian bank, to value the assets and produce regular reports of asset values and transactions. For hedge funds, the Commission will ensure that the fund employs a rigorous and independent pricing service. For non-marketable investments such as private equity, private real estate and illiquid investments, the Commission will determine whether the manager follows a rigorous valuation process consistent with FASB 157. An important criterion in the evaluation of managers of hedge funds and non-marketable assets is the adherence to a rigorous valuation process. The rigor of a valuation process depends, in part, on the scope and frequency of external audits.

ADDENDUM

The attached Addendum, which is incorporated herein, contains investment guidelines for each Investment Manager as well as a table which specifies each Investment Managers investment mandate, benchmark(s) and performance expectations. The addendum may be updated from time to time through the addition or replacement of managers. Such revised addendum (a) shall be incorporated by reference as the addendum to this Policy. It is understood that any such revision shall not be deemed an amendment to this Policy.

This Statement of Investment Policy is adopted November 29, 2017.

ADDENDUM ONE:

DATED January 31,2018

ASSET ALLOCATION STRUCTURE

The Commission recognizes that in adopting an asset allocation structure for the Plan they are setting a target for the allocation of assets. They also realize that since the market value of securities fluctuate, it is not possible to meet these specific targets at all times. The Plan staff and Investment Consultant will monitor this allocation, and on a quarterly basis report to the Commission. From time to time, based on the recommendation and advice of the Investment Consultant, the Commission may reallocate assets among managers to better meet these targets.

The asset allocation structure will seek to control risk (i.e., the volatility of returns from year to year) through portfolio diversification and will take into account, among other factors, the performance objectives set forth below, current funding levels, cash flow needs and economic and industry trends.

The target asset allocation for the Plan is as follows.

	Target Allocation	Allocation Range
Large Cap Equities	23.0%	18 – 28%
Mid Cap Equities	8.0%	5 – 11%
Small Cap Equities	5.0%	3 – 7%
Global Equities	13.0%	10 – 16%
Emerging Market Equities	5.0%	3 – 7%
Total Equities	***54.0%***	***49 – 59%***
Fixed Income	20.0%	15 – 25%
Fund of Hedge Funds and Co-Investments	17.0%	13 – 21%
Real Estate Equity	6.0%	4 – 8%
Private Equity/Debt	1.0%	0 – 5%
Cash Equivalents	2.0%	0 – 4%
Total Assets	***100.0%***	

ACTIVE MANAGER GUIDELINES – TRADITIONAL ASSET CLASSES

Equity Managers

Equity managers serve in a specialist role managing equity securities. Managers are selected based on their style of management such as Value, Growth and Core. Unless otherwise authorized in writing by the Commission, the following guidelines apply to each equity manager as defined by their role in the Plan.

General Guidelines for Equity Managers

Separate account Equity Managers are prohibited from investing in unregistered (except for SEC Rule 144A securities) or restricted stock, venture capital, private equity, private placements, options, futures and other derivative investments.

Each equity manager is expected to diversify its portfolio within its investment strategy to avoid large losses.

Large Cap Equity Managers (Edgar Lomax Large Cap Value, Loomis Sayles Large Cap Growth).

Edgar Lomax Large Cap Value and Loomis Sayles Large Cap Growth may invest in the following:

- Common stocks and convertible bonds of U.S. companies
- Exchange traded funds.
- American Depository Receipts (ADRs) and U.S. exchange listed foreign company stocks.
- Investments will primarily be in companies with market capitalizations similar to the constituent companies in the Investment Managers' style and/or long-term benchmark as defined in the table at the end of this addendum.
- Short-term investment fund of the Plan's custodian and U.S. Treasury Bills.

Mid Cap Equity Managers (Cooke & Bieler - Midcap Equity, Affinity Investment Advisors - Mid Cap Equity).

Cooke & Bieler and Affinity Investment Advisors may invest in the following:

- Common stocks and convertible bonds of U.S. companies
- Exchange traded funds.
- American Depository Receipts (ADRs) and U.S. exchange listed foreign company stocks.
- Investments will primarily be in companies with market capitalizations similar to the constituent companies in the Investment Managers' style and/or long-term benchmark as defined in the table at the end of this addendum.
- Short-term investment fund of the Plan's custodian and U.S. Treasury Bills.

Small Cap Equity Manager (Loomis Sayles Small Cap).

Loomis Salyes may invest in the following:

- Common stocks and convertible bonds of U.S. companies
- Exchange traded funds.
- American Depository Receipts (ADRs) and U.S. exchange listed foreign company stocks.
- Investments will primarily be in companies with market capitalizations similar to the constituent companies in the Investment Managers' style and/or long-term benchmark as defined in the table at the end of this addendum.
- Short-term investment fund of the Plan's custodian and U.S. Treasury Bills.

Global Equity Manager (Wellington Global Opportunities CTF).

The Wellington Global Opportunities CTF "WGO CTF" is a commingled fund. It is understood that the practices of the WGO CTF will be in accordance with the Fund's controlling documents.

Emerging Market Manager (Aberdeen Emerging Market Institutional Fund).

The Aberdeen Emerging Market Institutional Fund "AEMI Fund" is a commingled fund. It is understood that the practices of the AEMI Fund will be in accordance with the Fund's controlling documents.

<u>Fixed Income Managers</u>

Fixed Income Managers serve in a specialist role managing debt securities. Unless otherwise authorized in writing by the Commission, the following guidelines apply to each fixed income manager.

General Guidelines for Fixed Income Managers

Fixed income managers are prohibited from investing in venture capital, private equity, private placements, limited partnerships, warrants, and other derivative investments (except CMOs and CMBS).

An investment manager investing in CMO's and CMBS is expected to comply at all times with the Department of Labor's Statement on Derivatives issued March 21, 1996.

Each fixed income manager is expected to diversify its portfolio within its investment strategy to avoid large losses.

Core Fixed Income Manager (Garcia Hamilton)

Garcia Hamilton may invest in the following:

- U.S. dollar denominated obligations of the United States Government and its Agencies and instrumentalities, and U.S. corporations.
- Mortgage-backed securities including Collateralized Mortgage Obligations (CMO's) and commercial mortgage backed securities (CMBS).
- Asset Backed Securities ("ABS's").
- Municipal bonds
- Preferred stocks (trust preferreds).
- Yankee Bonds: Securities of foreign companies denominated in U.S. dollars, trading in the U.S. markets and capable of settlement in U.S. markets.
- Eurobonds: Dollar denominated obligations of U.S. companies or Foreign companies trading outside the U.S.
- Only fixed income securities rated BBB-/Baa3/BBB- or better by Fitch, Moody's or Standard & Poors, respectively may be purchased. In the event of a split rating, the higher rating will prevail. If a security held in the portfolio is downgraded below the above stated limitations, the portfolio manager will immediately notify the Trustees in writing of the event and describe the manager's plans for dealing with the security. Should the manager decide to continue to hold the downgraded issue, the manager will report to the Trustees quarterly in writing as to the status of the security.

- Short-term instruments may include the short-term investment fund of the Plan's custodian and U.S. Treasury Bills.
- The average option adjusted (effective) duration of the portfolio may not exceed 125% of the duration of the Barclays Intermediate Aggregate Index.

Core Plus Fixed Income Manager (Lazard Asset Management)

The Lazard Fixed Income Funds LLC are commingled funds. It is understood that the practices of the Lazard Fixed Income Funds LLC will be in accordance with the Funds' controlling documents.

The Account will be invested in accordance with Lazard Asset Management's U.S. Core Fixed Income Plus Investment Strategy. The investment restrictions below apply only to the extent the Account invests in individual securities, or to the Account's overall allocation to the Lazard Funds but do not apply to the underlying securities held in any Lazard Fund. All ranges are monitored at time of purchase.

No more than 35% of the Account's assets may be allocated to "Plus" category investments. Plus, category investments are defined as investments in convertible securities, non-dollar denominated international/developed market securities, emerging market securities, credit derivatives and certain "other investments", as well as high yield securities, including the Lazard U.S. High Yield Portfolio (the "High Yield Fund") of the Fund. "Other Investments" such as currency, commodity, infrastructure, and volatility investments, may be utilized only when the Manager deems that there are material investment advantages that reduce investment risk, such as but not limited to, improved liquidity, reduced transaction costs, improved diversification benefits, and/or enhanced time mitigation.

Unconstrained Fixed Income Manager (Goldman Sachs Strategic Income Fund)

The Goldman Sachs Strategic Income Fund "GSSI Fund" is a commingled fund. It is understood that the practices of the GSSI Fund will be in accordance with the Fund's controlling documents.

Short-Term Investments (State Street Government STIF)

A short-term investment fund, offered by the Plan's custodian, will be used to invest cash not invested by the Investment Managers, employer contributions, and cash held for Plan benefit or expense payments. The Plan's custodian is responsible for sweeping all manager accounts daily so that no cash is left uninvested each night.

The State Street Government STIF "SSG STIF" is a commingled fund. It is understood that the practices of the SSG STIF will be in accordance with the Fund's controlling documents.

ACTIVE MANAGER GUIDELINES – NON-TRADITIONAL ASSET CLASSES

Non-Traditional/Alternative Investments are often structured as private investments and are generally formed as limited partnerships or limited liability companies. The managers of these investments generally are allowed to operate with greater flexibility than most traditional investment managers and their compensation usually includes substantial performance incentives.

The objective of non-traditional/alternative asset allocations is to provide diversification by investing in strategies that do not correlate directly with traditional equity and/or fixed-income investments, thus improving the overall risk/return characteristics of the Plan. It is acknowledged that there is no guarantee that this objective will be realized.

It is also acknowledged that these investments are less transparent than traditional investments and that liquidity in such investments can be limited. Liquidity constraints, including lockup provisions and redemption or withdrawal fees, must be taken into consideration when making allocations to such investments.

Allowable Strategies:

Real Estate Equity Manager (UBS - Trumbull Property Fund, UBS - Trumbull Property Income Fund)

The UBS - Trumbull Property Fund and UBS - Trumbull Property Income Fund are commingled funds. It is understood that their investment practices will be in accordance with the controlling documents of each fund.

Fund of Hedge Funds Managers (Grosvenor Institutional Partners, L.P., EnTrust Special Opportunities Fund II Ltd., EnTrust Special Opportunities Fund III Ltd., Lighthouse Global Long/Short Equity Lmited Class A)

Fund of Hedge Funds Managers may invest in several hedging and arbitrage strategies. These strategies may include, but are not limited to, the following: equity market neutral, statistical arbitrage, merger (risk) arbitrage, fixed income arbitrage, convertible arbitrage, distressed securities, momentum trading, equity long/short, global macro, event-driven, short selling, structured credit products and emerging markets.

The primary objective of the Manager shall be to achieve consistent capital growth, with limited volatility of returns, while maintaining a diversified asset mix to minimize the risk of loss. The Manager will pursue its objective by allocating the Fund of Hedge Funds among a diversified group of hedge fund managers and the investment funds they operate. Grosvenor Institutional Partners, L.P., EnTrust Special Opportunities Fund II Ltd., EnTrust Special Opportunities Fund III Ltd. and Lighthouse Global Long/Short Equity Limited Class A are commingled funds. It is understood that the practices of each of these funds will be in accordance with the Funds' controlling documents.

Private Market Managers (Crescent Mezzanine Partners VII, L.P., Oaktree Real Estate Debt Fund II, L.P.)

Private markets investments are intended to provide an attractive real rate of return over time and long-term capital growth in excess of the returns available through the public securities markets. Generally, such investments will be made through private limited partnerships or similar structures and the underlying investments will be unlisted and/or illiquid assets and may take the form of equity or debt. Such private equity/debt strategies may include (but are not limited to) venture capital, mezzanine debt, buyouts and distressed financing as summarized below.

- Venture Capital includes start-up, early stage, later stage and bridge financing.
- Mezzanine Debt includes investment in the subordinated debt of privately owned companies. The debt holder participates in equity appreciation through conversion features such as warrants, rights or options.
- Buyouts include equity investments in public or private companies that result in the purchase of a significant portion or majority control of the company.
- Distressed Financing: investments in under- performing companies with the intent of initiating a recovery via financial restructuring.

Crescent Mezzanine Partners VII, L.P. and Oaktree Real Estate Debt Fund II L.P. are commingled funds. It is understood that the practices of each of these funds will be in accordance with the Funds' controlling documents.

Manager Mandates, Benchmarks and Performance Expectations

ACTIVE EQUITY MANAGERS

Asset Class/Strategy	**Manager Name**	**Style (Construction) Benchmark**	**Long-Term Benchmark**
U.S.$ Large Cap Equities – Value	Edgar Lomax - Large Cap Equity	S&P 500 Value	S&P 500
U.S.$ Large Cap Equities – Growth	Loomis Sayles - Large Cap Growth	Russell 1000 Growth	S&P 500
U.S.$ Mid Cap Equities – Value	Cooke & Bieler - Midcap Equity	Russell Midcap Value	Russell Midcap
U.S.$ Mid Cap Equities	Affinity Investment Advisors - Mid Cap Equity	NA	Russell Midcap
U.S.$ Small Cap Equities	Loomis Sayles - Small Cap	NA	Russell 2500
Global	Wellington Global Opportunities	NA	MSCI AC World (Net)
Emerging Market	Aberdeen Emerging Market Institutional Fund (ABEMX)	NA	MSCI Emerging Markets (Net)

U.S.$ Equity Managers are selected based on their style of management such as Value, Growth and Core. It is expected that the U.S.$ Equity Managers will outperform the median return of a representative database of managers with a similar style over a market cycle or three years, whichever is less. Over longer periods of time, it is expected that the Manager's net-of-fee return will exceed the return of the Long-Term Benchmark regardless of the style of management.

It is expected that the net-of-fee return of the Non-U.S.$ Equity Managers will exceed the return of the Long-Term Benchmark over a market cycle or three years, whichever is less.

ACTIVE FIXED INCOME MANAGERS

Asset Class/Strategy	**Manager Name**	**Style (Construction) Benchmark**	**Long-Term Benchmark**
Core Plus Fixed Income	Lazard Core Plus Fixed Income	NA	Barclays Aggregate Index
Core Intermediate Fixed Income	Garcia Hamilton Fixed Income	NA	Barclays Intermediate Aggregate Index

Unconstrained Fixed Income	Goldman Sachs Strategic Income Fund (GSZIX)	NA	B of A/ML LIBOR 3-month constant maturity and Barclays Intermediate Aggregate Index
It is expected that the Fixed Income Manager's net-of-fee return will exceed the Long-Term Benchmark over a market cycle or three years, whichever is less.			

REAL ESTATE

Asset Class/Strategy	**Manager Name**	**Style (Construction) Benchmark**	**Long-Term Benchmark**
Open End REIT Fund	UBS - Trumbull Property Fund	NA	NFI-ODCE
Open End REIT Fund	UBS - Trumbull Property Income Fund	NA	NFI-ODCE
It is expected that Real Estate Equity Manager's net-of-fee return will exceed the return of the Long-Term Benchmark over a market cycle or five years, whichever is less.			

HEDGE FUNDS

Opportunistic Fund of Hedge Funds	EnTrust Special Opportunities II	NA	LIBOR + 7%
Opportunistic Fund of Hedge Funds	EnTrust Special Opportunities III	NA	LIBOR + 7%
Diversified Fund of Hedge Funds	Grosvenor Institutional Partners, L.P.	NA	90 day T-Bills plus 5% and HFRI Fund of Funds Composite Index
Long/Short Equity Fund of Hedge Funds	Lighthouse Global Long/Short Equity Class A	NA	HFRI Equity Hedge Index
It is expected that the Fund of Hedge Funds Manager's net-of-fee return will exceed the Long-Term Benchmark over a market cycle or three years, whichever is less.			

PRIVATE DEBT/EQUITY

Closed End Private Debt	Crescent Mezzanine Partners VII	NA	Barclays Aggregate Index + 5%
Closed End Private Debt	Oaktree Real Estate Debt Fund II	NA	Barclays Aggregate Index + 5%

It is expected that the Private Debt/Equity Manager's net-of-fee return will exceed the return of the Long-Term Benchmark over a 7 to 10-year period.			

CASH

Short Term Investment Fund	State Street Government STIF	NA	91 Day T-Bills
It is expected that the Cash Manager's net-of-fee return will exceed the referenced benchmark over a rolling 3-year period.			