

THE WOODLANDS FIREFIGHTERS' RETIREMENT SYSTEM  
INVESTMENT POLICY STATEMENT

## I. INTRODUCTION

- A. The Woodlands Firefighters' Retirement System ("System") is a pension trust fund operating under the constitutional and statutory provisions of the State of Texas. A Board of Trustees ("Board") governs the System.
- B. The System provides service, disability, death, and survivor benefits for fire fighters and retired fire fighters in the System and for their beneficiaries. Benefits are funded by contributions of the active fire fighters, the governing entity, and investment returns.
- C. The assets of the pension system are for the exclusive benefit of the members of the System.
- D. The assets of the pension system shall be invested and reinvested in accordance with Article 16 of the Texas Constitution, TX Revised Civil Statutes Article 6243e, Texas Local Fire Fighter's Act and the Texas Government Code 802, Subchapter B and Chapter 804.

## II. PURPOSE

- A. The purpose of the Investment Policy is to define policies to guide the implementation of the Board's investment goals and objectives in addition to establishing delegations of authority and responsibility, with the end result being effective management and control of the investment process.
- B. This investment policy applies to all financial assets of the system.
- C. This investment policy is binding upon all persons with authority over the System's assets including:
  - 1. Investment managers/advisors;
  - 2. Custodians;
  - 3. Consultants;
  - 4. Broker/Dealers;
  - 5. Executive Staff and Administrative employees;
  - 6. The Board of Trustees.
- D. Trustees, Executive Staff, and Administrative employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.
- E. Trustees shall use reasonable care to prevent another Trustee from committing a breach of any of the responsibilities, obligations, or duties imposed upon fiduciaries.
- F. Trustees, Executive Staff, and Administrative employees shall disclose to the Board Chairman any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the System.
- G. Trustees, Executive Staff, and Administrative employees who become aware of a personal conflict of interest that affects their duty owed to the System have an obligation not only to disclose that conflict, but also to cure it.
- H. A person may cure a conflict of interest by withdrawing from action on a particular matter in which a conflict exists, and not influencing any action taken.
- I. System investment managers, consultants, custodians and supporting vendors must disclose information regarding relationships with, and direct or indirect pecuniary interests in, any party to a transaction with the System. The statement must cover the reporting period of the previous calendar year and must be filed with the Board Chairman and Administrator no later than April 15 the following year.

### III. INVESTMENT OBJECTIVE

The Board's investment objectives over extended periods of time (generally, ten to twenty years) are to achieve an average annualized investment return that equals or exceeds the actuarial investment return assumption of the System over a rolling three to five-year period. The assumed actuarial rate of return is 7.00%.

### IV. INVESTMENT STRATEGY

- A. It is the policy of the Board to invest funds in a manner that will provide investment return with security while meeting the daily cash flow demands of the System and conforming to all state statutes governing the investment of public funds.
- B. The Board may acquire, hold, manage, purchase, sell, assign, trade, transfer, and dispose of any security, evidence of debt, or other investment in which the System's assets may be invested.
- C. The objectives of the Board will be implemented based on the following principles:
  - a. Asset allocation is the most important determinant of investment performance.
  - b. Liquidity will be emphasized to meet benefit payment requirements.
  - c. The investment strategy is long-term, recognizing that the average age of the System's liabilities is relatively long. For this reason, emphasis will be placed upon long-term or strategic decisions rather than tactical or short-term market timing decisions, recognizing the long-term horizon could result in short-term volatility with the goal of achieving a consistent investment strategy.
  - d. All major sectors of the capital markets should be considered in order to diversify and minimize total investment program risk. Such sectors may include, but are not limited to, equities (both U.S. and international, public and private), fixed income, convertible bonds, short-term cash equivalents, real estate property and securities, and alternative investments.
  - e. Periodic rebalancing of the allocation of assets among asset classes will be performed to maintain the asset allocation.
  - f. The Board of Trustees may delegate to an Investment Committee the responsibility for monitoring the implementation of policies approved by the Board and for making appropriate recommendations to the Board.
  - g. Commitment to excellence should be reflected in a manager's performance ranking over a market cycle, typically a three to five-year period or as otherwise determined by the Board of Trustees.
  - h. Cost control is valued, particularly regarding investment management fees, and the focus will be on the returns net of fees.
  - i. Economic justification for investment proposals will override social and/or local justifications. Social and/or local investments will only be considered when they provide reasonable and competitive rate of return expectations versus other comparable investments.
  - j. Formal asset allocation studies will be conducted by an actuary at least every five years, with annual evaluations of the validity of the adopted asset allocation based on updated return projections.

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

- A. The Trustees, as fiduciaries of the System, shall:
  - 1. Manage the assets for the exclusive benefit of the members of the system;
  - 2. Establish prudent investment policies defining investment objectives and strategies;
  - 3. Seek to maximize investment return while maintaining the safety of the principal;
  - 4. Diversify the assets to reduce risk of loss;
  - 5. Monitor and document investment performance; and
  - 6. Efficiently manage the costs associated with implementation of the investment program.
- B. The Trustees may designate persons other than themselves to carry out fiduciary responsibilities.
- C. In carrying out its fiduciary duties with respect to assets of the System, the Trustees will consider and act upon recommendations made by the Investment Committee if provided with respect to the investment programs and compliance of the investment programs with board policies.
- D. The Trustees shall adopt and maintain an Investment Policy that details, at a minimum, the:
  - 1. Investment goals and objectives;
  - 2. Asset allocation guidelines;
  - 3. Policies that govern the selection and removal of investment managers;
  - 4. Eligible investment categories; and
  - 5. Proxy voting guidelines.
- E. The Investment Policy shall be reviewed annually

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

- A. The Board of Trustees' Investment Committee, should one be appointed, would be composed of three trustees selected by the Chairman and would meet at least quarterly. The System's Investment Consultant/Advisor reports directly to the Board of Trustees until such time that the Board appoints said committee. If a committee is appointed, the full Board of Trustees, as a fiduciary of the System, shall consider the committee's recommendations and vote on all recommendations as a whole. Otherwise, all duties listed herein, are those of the full Board of Trustees.
- B. The Investment Committee would advise the Board and make recommendations on the investment programs of the System and compliance of the investment programs with Board policies.
- C. The Investment Committee would be responsible for preparing and maintaining an Investment Policy for the Board.
- D. The Investment Committee would advise the Board and make recommendations with respect to the appointment of the following service providers:
  - 1. Investment managers
  - 2. Transition managers
  - 3. Investment Consultants/Advisors; and
  - 4. Custodial Banks.
- E. The Investment Committee would recommend to the Board specific actions to achieve the investment goals and objectives of the System.
- F. Duties of the Investment Committee
  - 1. Monitor the System's compliance with the Investment Policy and report to the Board as appropriate;

2. Monitor asset allocation to individual asset classes utilized in the investment programs;
3. Review the performance of each asset class within the investment programs;
4. Review investment manager performance;
5. Conduct due diligence activities concerning the selection of investment managers, consultants and advisors to assure that they are consistent with the policies of the Board;
6. Review the cost effectiveness of the investment program, including trading efficiency and external manager fees; and
7. Review the performance and independence of the investment consultant should the board hire as such.

**VII. RESPONSIBILITIES OF THE ADMINISTRATOR**

- A. The Administrator is delegated full authority and responsibility by the Board of Trustees in the implementation and administration of its investment programs subject to Board policies, rules, regulations and directives consistent with constitutional and statutory limitations.
- B. Under the authority of the Board of Trustees, the Administrator will carry out the following duties:
  1. Assist the Board in the procurement of investment managers, consultants and custodians;
  2. Approve guidelines and contracts for each investment manager retained by the Board of Trustees;
  3. Recommend to the Board and/or the Investment Committee revisions to the Investment Policy; and
  4. Supervise staff in carrying out actions of the Board and Investment Committee.

**VIII. RESPONSIBILITIES OF THE INVESTMENT ADVISOR**

The Board shall use a third party investment advisor, who shall be a fiduciary of the System, working with the Board of Trustees and/or the Investment Committee to:

1. Assist in appraising performance;
2. Provide performance comparison data as requested;
3. Assist in evaluating advisor style discipline and peer comparison;
4. Assist in asset allocation studies; and
5. Other duties the Board or Investment Committee deem appropriate.

**IX. RESPONSIBILITIES OF INVESTMENT MANAGERS**

- A. Due Diligence: Each Investment Manager/Advisor shall 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 with compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities
- B. These duties and responsibilities of each of the registered investment managers retained by the Board include managing the assets under its purview in accordance with the policy guidelines and objectives expressed herein in addition to any separate written agreement.

**X. PROXY VOTING POLICY**

Voting of proxies shall vest with each manager. Each manager's voting guidelines and procedures shall be submitted to the Board of Trustees and/or the Investment Committee for review and concurrence.

**XI. PERMITTED ASSET CLASSES**

- A. Equities: Equity investments should be used to provide appreciation of principal as well as dividend income to the Fund with the recognition that this requires the assumption of greater market volatility and risk. Securities should be chosen on a total return evaluation basis using a thorough analysis of safety, liquidity and reasonably expected returns. Domestic equities shall be chosen from the New York Stock Exchange, the American Stock Exchange, regional exchanges and the NASDAQ market. No letter stocks or privately held stocks are permitted. International investments should be made in companies with American Depositary Receipts (ADR's) when possible. Direct purchase of international securities is permitted if such shares are listed on a recognized international exchange which provides immediate market values and liquidity and so long as the aggregate market value of such foreign denominated securities does not exceed 5% of the Plan balance at any time. Some privately held shares such as private equity is permitted by alternate asset managers so long as the aggregate does not exceed 5% of the Plan balance. Preferred stocks and convertible securities are allowed when they offer a better risk/return expectation than conventional equities. Such securities must have a readily ascertainable market value and be rated at least A3 by Moody's Investor Service or A- by Standard & Poor's Corporation. For purposes of asset allocation for the Plan they will be considered equities.
- B. Fixed Income: Fixed Income investments should be used to provide a highly predictable and dependable source of income and to reduce the volatility of the market value of the Plan as well as provide liquidity when needed for current operations. Allowable fixed income securities include government securities, government agencies, mortgage backed pass-through bonds, corporate bonds, taxable municipals, and other asset backed securities. An average rating of A or better should be maintained for the fixed income portfolio. The average duration of all fixed income investments of the Plan should not exceed 10 years. All fixed income investments except foreign sovereign bonds which meet the rating standards above must be payable in U.S. dollars. Some fixed income investments which do not meet the rating or duration standards above may be used by alternative asset managers so long as the total amount of such investment does not exceed 5% of the Plan balance.
- C. Alternative Investments: Any investment by the Plan that is not cash, fixed income, or conventional equity will be considered an alternative investment. The purpose of alternative investments for the Plan is to provide principal growth and income in ways that do not have a high historical correlation to conventional investments in cash, fixed income and conventional equity. Master limited partnerships or funds thereof, real estate investments through REITS, hedge funds, private equity, private real estate, managed futures and commodities are alternative investments that are approved investments. Additional types of alternative investments may be made, if recommended by the Investment Advisor and approved by the Board, up to an amount less than or equal to 5% of the Plan balance at the time of investment.
- D. Cash: Cash or cash equivalent investments may be used to provide current income, but their main purpose should be to store purchasing power when appropriate to fund longer term investments. Cash investments include negotiable certificates of deposit of banks insured by the FDIC which must not exceed

the current maximum insured size, interest bearing money market funds of the highest quality, or short term interest bearing instruments with minimal or no risk which are immediately saleable.

**XII. INVESTMENT RESTRICTIONS**

Investment restrictions include the following and shall be strictly adhered to unless specifically waived by a resolution of the Board:

1. All investments must be U.S. dollar denominated except for certain equities and sovereign foreign bonds as delineated in Permitted Asset Classes;
2. Commercial paper must be rated P1 by Moody’s or A1 or A2 by Standard & Poor’s;
3. No more than 5% of the voting securities of any corporation may be owned;
4. No securities may be purchased on margin or leverage;
5. No short sale transactions except by approved alternative investment managers;
6. Transactions in financial futures are prohibited except by approved alternative investment managers;
7. No more than 20% of the aggregated equity portfolio may be invested in any one sector of the MSCI World at market;
8. No more than 5% of the aggregated equity portfolio shall be invested in securities of any one company;
9. No privately held securities shall be included in the Plan except by approved alternative investment managers; and
10. Option trading is prohibited except for covered calls or put hedges on a one to one ratio.

**XIII. ASSET ALLOCATION**

System Asset Allocation	Lower Limit	Target	Upper Limit
<b>Equities</b> U.S. Market and International – Large Cap, Mid Cap, Small Cap Core / Value / Growth	60%	73%	85%
<b>Fixed Income</b> Investment Grade US, Investment Grade Non-US, High Yield, Emerging Market, Real Return (TIPS), Taxable Municipal	10%	20%	30%
<b>Alternative Investments</b> Hedge Funds REITs Private Equity & Private Real Estate Commodities & Managed Futures	0%	5%	10%
<b>Cash &amp; Equivalents</b>	1%	2%	5%

- A. The most important component of an investment strategy is the asset mix, or the resource allocation among the various classes of securities available to the System for investment purposes. The Board of Trustees shall set long-term asset allocation targets or ranges that will best meet the needs of the System and its beneficiaries.
- B. Within each asset class, the Board of Trustees shall adopt portfolio implementation strategies and investment styles to meet the overall investment objective of each asset class.
- C. The asset allocation should be rebalanced at least annually the asset allocation of the investment portfolios to remain within the target allocation bands.

**XIV. PERFORMANCE BENCHMARKS FOR ASSET CLASSES**

Asset Class	Percentile Expectation Relative to Style Peers	Annualized Return & Risk Adjusted Return Expected Relative to Index
Domestic Large Cap Equity Value Orientation	50 <sup>th</sup>	Russell 1000 Value
Domestic Large Cap Equity Core Orientation	50 <sup>th</sup>	Russell 1000
Domestic Large Cap Equity Growth Orientation	50 <sup>th</sup>	Russell 1000 Growth
Domestic Mid-Cap Equity Value Orientation	50 <sup>th</sup>	Russell Midcap Value
Domestic Mid-Cap Equity Core Orientation	50 <sup>th</sup>	Russell Midcap
Domestic Mid-Cap Equity Growth Orientation	50 <sup>th</sup>	Russell Midcap Growth
Domestic Small Cap Equity Value Orientation	50 <sup>th</sup>	Russell 2000 Value
Domestic Small Cap Equity Core Orientation	50 <sup>th</sup>	Russell 2000
Domestic Small Cap Equity Growth Orientation	50 <sup>th</sup>	Russell 2000 Growth
All-Capitalization Core Equity Orientation	50 <sup>th</sup>	MSCI World Index
International Equity	50 <sup>th</sup>	MSCI EAFE Index; MSCI ACWI ex-US Index
International Bond	50 <sup>th</sup>	Barclays Capital Global Aggregate Bond ex US Index
Domestic Fixed Income	50 <sup>th</sup>	Barclays Capital U.S. Aggregate Bond; Barclays Intermediate Govt/Credit

- A. On a timely basis, but not less than four times per year, the Board will review actual investment returns achieved by each manager (with a perspective toward a five-year time horizon) to determine whether:
1. The investment managers performed in adherence to the investment philosophy and policy guidelines;
  2. The investment managers performed satisfactorily when compared with the objectives set forth in the chart above, as a primary consideration their own previously stated investment style. Given the challenges and limitations in benchmarking an investment manager's strategy to a particular index or peer group, the Board will take into consideration each of the objectives individually in evaluating the manager's performance. A manager will be deemed to be performing satisfactorily if they are meeting any one of the three performance expectations (peer ranking, absolute return relative to index, or risk adjusted return relative to index). Risk adjusted returns will be evaluated by measuring the manager's Sharpe Ratio. Percentile Expectation Relative to Style Peers (above) is applicable only if the number of managers in a peer group is statistically significant. Otherwise, the percentile requirement is considered not applicable (N/A); and
  3. Several different market indices should be considered.
  4. In the case that the actual managed portfolio does not have a five year history for evaluation, the manager's strategy composite can be evaluated for adherence to the above stated objectives.

B. Return Objectives



The combined Plan's total return should perform at least in the upper fiftieth (50<sup>th</sup>) percentile compared to investment style peers of similar type as found in the relevant peer universe of Plans measured over a minimum period of three (3) years.

Agreed and accepted the \_\_\_\_ day of June, 2018 by the Board of Trustees of The Woodlands Firefighters' Retirement System.

\_\_\_\_\_  
Doug Adams, Chairman

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Jeff Johnston, Secretary

**Appendix A: Investment Policy History**

Date	Action	Comments
March 2015	Board adopted initial IPS	
May 2018	Board adopted changes in policy	Added permitted asset class language and investment restrictions; added asset classes to asset allocation; reduced target ranges; amended performance benchmarks for asset classes

# THE WOODLANDS FIREFIGHTERS' RETIREMENT SYSTEM INVESTMENT POLICY STATEMENT

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the current maximum insured size, interest bearing money market funds of the highest quality, or short term interest bearing instruments with minimal or no risk which are immediately saleable.

## XII. INVESTMENT RESTRICTIONS

Investment restrictions include the following and shall be strictly adhered to unless specifically waived by a resolution of the Board:

1. All investments must be U.S. dollar denominated except for certain equities and sovereign foreign bonds as delineated in Permitted Asset Classes;
2. Commercial paper must be rated P1 by Moody's or A1 or A2 by Standard & Poor's;
3. No more than 5% of the voting securities of any corporation may be owned;
4. No securities may be purchased on margin or leverage;
5. No short sale transactions except by approved alternative investment managers;
6. Transactions in financial futures are prohibited except by approved alternative investment managers;
7. No more than 20% of the aggregated equity portfolio may be invested in any one sector of the MSCI World at market;
8. No more than 5% of the aggregated equity portfolio shall be invested in securities of any one company;
9. No privately held securities shall be included in the Plan except by approved alternative investment managers; and
10. Option trading is prohibited except for covered calls or put hedges on a one to one ratio.

## XIII. ASSET ALLOCATION

System Asset Allocation	Lower Limit	Target	Upper Limit
<b>Equities</b> U.S. Market and International – Large Cap, Mid Cap, Small Cap Core / Value / Growth	60%	73%	85%
<b>Fixed Income</b> Investment Grade US, Investment Grade Non-US, High Yield, Emerging Market, Real Return (TIPS), Taxable Municipal	10%	20%	30%
<b>Alternative Investments</b> Hedge Funds REITs Private Equity & Private Real Estate Commodities & Managed Futures	0%	5%	10%
<b>Cash &amp; Equivalent</b>	1%	2%	5%

- A. The most important component of an investment strategy is the asset mix, or the resource allocation among the various classes of securities available to the System for investment purposes. The Board of Trustees shall set long-term asset allocation targets or ranges that will best meet the needs of the System and its beneficiaries.
- B. Within each asset class, the Board of Trustees shall adopt portfolio implementation strategies and investment styles to meet the overall investment objective of each asset class.
- C. The asset allocation should be rebalanced at least annually the asset allocation of the investment portfolios to remain within the target allocation bands.



**XIV. PERFORMANCE BENCHMARKS FOR ASSET CLASSES**

Asset Class	Percentile Expectation Relative to Style Peers	Annualized Return & Risk Adjusted Return Expected Relative to Index
Domestic Large Cap Equity Value Orientation	50 <sup>th</sup>	Russell 1000 Value
Domestic Large Cap Equity Core Orientation	50 <sup>th</sup>	Russell 1000
Domestic Large Cap Equity Growth Orientation	50 <sup>th</sup>	Russell 1000 Growth
Domestic Mid-Cap Equity Value Orientation	50 <sup>th</sup>	Russell Midcap Value
Domestic Mid-Cap Equity Core Orientation	50 <sup>th</sup>	Russell Midcap
Domestic Mid-Cap Equity Growth Orientation	50 <sup>th</sup>	Russell Midcap Growth
Domestic Small Cap Equity Value Orientation	50 <sup>th</sup>	Russell 2000 Value
Domestic Small Cap Equity Core Orientation	50 <sup>th</sup>	Russell 2000
Domestic Small Cap Equity Growth Orientation	50 <sup>th</sup>	Russell 2000 Growth
All-Capitalization Core Equity Orientation	50 <sup>th</sup>	MSCI World Index
International Equity	50 <sup>th</sup>	MSCI EAFE Index; MSCI ACWI ex-US Index
International Bond	50 <sup>th</sup>	Barclays Capital Global Aggregate Bond ex US Index
Domestic Fixed Income	50 <sup>th</sup>	Barclays Capital U.S. Aggregate Bond; Barclays Intermediate Govt/Credit


- A. On a timely basis, but not less than four times per year, the Board will review actual investment returns achieved by each manager (with a perspective toward a five-year time horizon) to determine whether:
1. The investment managers performed in adherence to the investment philosophy and policy guidelines;
  2. The investment managers performed satisfactorily when compared with the objectives set forth in the chart above, as a primary consideration their own previously stated investment style. Given the challenges and limitations in benchmarking an investment manager's strategy to a particular index or peer group, the Board will take into consideration each of the objectives individually in evaluating the manager's performance. A manager will be deemed to be performing satisfactorily if they are meeting any one of the three performance expectations (peer ranking, absolute return relative to index, or risk adjusted return relative to index). Risk adjusted returns will be evaluated by measuring the manager's Sharpe Ratio. Percentile Expectation Relative to Style Peers (above) is applicable only if the number of managers in a peer group is statistically significant. Otherwise, the percentile requirement is considered not applicable (N/A); and
  3. Several different market indices should be considered.
  4. In the case that the actual managed portfolio does not have a five year history for evaluation, the manager's strategy composite can be evaluated for adherence to the above stated objectives.

B. Return Objectives

The combined Plan's total return should perform at least in the upper fiftieth (50<sup>th</sup>) percentile compared to investment style peers of similar type as found in the relevant peer universe of Plans measured over a minimum period of three (3) years.

Agreed and accepted the 8<sup>th</sup> day of June, 2018 by the Board of Trustees of The Woodlands Firefighters' Retirement System.

  
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 Doug Adams, Chairman

  
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 Jeff Johnston, Secretary

**Appendix A: Investment Policy History**

Date	Action	Comments
March 2015	Board adopted initial IPS	
May 2018	Board adopted changes in policy	Added permitted asset class language and investment restrictions; added asset classes to asset allocation; reduced target ranges; amended performance benchmarks for asset classes