LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT POLICEMEN'S AND FIREFIGHTERS' RETIREMENT FUND

STATEMENT OF INVESTMENT OBJECTIVES, POLICIES AND PROCEDURES

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I. Introduction

The Policemen's and Firefighters Retirement Fund (the Fund) was established to provide retirement annuities and disability benefits to members of the Lexington-Fayette Urban County Government police and fire departments and to provide widow's annuities and other benefits to their dependents. The Board of Trustees (the Board) is responsible for the operation of the Fund and the direction of the Fund policies. The purpose of this document is to state the overall investment goals, to establish a set of investment objectives, asset allocations, investment manager guidelines, investment performance standards and procedures for managing the Fund's assets.

The Board recognizes its fiduciary responsibility to invest the Fund's assets in compliance with the "Prudent Man Rule" and to invest funds in permitted investments under the laws of the Commonwealth of Kentucky (KRS 67A.570; KRS 386.030). This IPS may be modified from time to time by action of the Board.

The policy identifies a set of investment objectives, guidelines, and performance standards for the investment of the assets of the Plans. This policy represents the formal document governing the investment of Plan assets. This document will be used as the basis for future investment performance measurement and evaluation.

Investments will be made for the sole interest of the participants and beneficiaries of the Plans and in accordance with the following objectives:

1. To ensure funds are available to meet current and future obligations of the Plan when due.
2. To ensure the assets of the Plan are invested with the care, skill, and diligence that a prudent person acting in a like capacity would undertake.
3. To ensure the assets of the Plan are invested in a manner that minimizes and controls the costs incurred in administering and managing the assets.
4. To earn a minimum rate of return no less than the actuarial rate.
5. To earn the maximum rate of return that can be realistically achieved, given existing market conditions, at an acceptable and controlled level of risk, in order to minimize future contributions.

II. Investment Objectives

The objectives of the Plan have been established based upon current and projected financial requirements. The objectives are:

(1) To attain a total rate of return net of investment management fees equal to or exceeding 7.5%. For purposes of this statement, real rate of return will be measured over five years and greater.

(2) To manage the Plan's assets in a cost effective manner.

The investment guidelines are based upon an investment horizon of greater than five years, so that interim fluctuations should be viewed with appropriate perspective. Similarly, the Plan's target asset allocation is based on this long-term perspective.

III. ROLES AND RESPONSIBILITIES

A. THE BOARD OF TRUSTEES

The responsibility for the proper operation of the fund and the direction of its policies shall be vested in a board of trustees of twelve (12) members, consisting of the mayor, the commissioner of public safety, the commissioner of finance, the director of human resources, two (2) retired members of the fund, the chiefs of the police and fire department, and two (2) active members of each department, who shall be elected by ballot by the active members of the respective departments and shall serve for alternating terms of two (2) years under rules adopted by the board. One of the active members representing each department shall be elected on even-numbered years; and the other active member representing the department shall be elected on odd-numbered years. In the event of a vacancy of an elected member, the pension board shall fill the vacancy by appointment until the next regular election.

The LFUCG PFRF Board of Trustees (the "*Board*") is responsible for developing, implementing, supervising and evaluating the Investment Program, hiring Service Providers and monitoring and evaluating the effectiveness of Service Providers in carrying out their respective duties under the Investment Program. Specifically, the Board is responsible for:

1. Delineating general investment policy for the Investment Program including:
    a. Asset allocation policy, which establishes and communicates the Board's return expectations and risk tolerance;
    b. Investment manager structure policy, which establishes and communicates the Board's decisions regarding the number and types of investment managers that are appropriate for the Investment Program under the then current circumstances; and
    c. Investment manager guidelines, which establish and communicate the risk parameters set by the Board for each individual manager consistent with the overall risk level set for the Investment Program.
2. Hiring a bank as Custodian and an Investment Consultant to assist the Board and in implementing policy and managing the Investment Program.
3. Appointing investment managers to fulfill specific roles in the Investment Program defined by the manager structure.
4. Establishing effective communication and review procedures between the investment managers, the Investment Consultant, the Custodian and the Board.
5. Monitoring and evaluating each investment manager's success in achieving the objectives set for such manager by the Board and adhering to established guidelines.
6. Approving the termination and, if appropriate, replacement of an investment manager when the investment manager fails to achieve the objectives set for the manager by the Board or when the needs of the Investment Program change
7. Monitoring and controlling investment expenses, including investment manager fees, trustee and Custodian fees, and trading costs.

The Service Providers listed in this Investment Policy Statement, in providing services to the Board and the Plans, will use at least the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment and administrative professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with ERISA and all other applicable laws, rules, and regulations. The list of services provided below for each Service Provider may be revised from time to time by the Board.

C. INVESTMENT CONSULTANT

The primary role of the Investment Consultant is to assist the Board in fulfilling its responsibilities by providing the information and analysis required by the Board to carry out the Board's duties and by assisting the Board in developing and implementing a prudent process for monitoring and evaluating the Investment Program to ensure the success of the Investment Program. In specific terms, the responsibilities of the Investment Consultant include:

1. Assisting the Board in the development, implementation and evaluation of investment policy for the Investment Program that reflects the Board's tolerance for risk and the Board's objectives for the Plans, including performance, funded status, and pension expense objectives.
2. To assist the Board in the development, implementation and evaluation of an investment manager structure that provides appropriate diversification with respect to the number and types of investment managers retained by the Board.
3. Making recommendations to the Board regarding the identification of appropriate market benchmarks and peer groups against which each investment option should be evaluated.
4. Conducting a prudent investment manager search process, as needed, to identify appropriate candidates for review and selection by the Board.

5. Producing quarterly performance evaluation reports to assist the Board in evaluating the Board's investment policies and the Investment Program. Such reports will evaluate the performance and risk characteristics of each investment option then offered under the Plans and each investment manger relative to targets established in this Investment Policy Statement. The Investment Consultant will also evaluate the investment style of each manager to determine if the manager is fulfilling the role for which they were hired. In conjunction with these reports, the Investment Consultant will provide the Board with recommendations for action when appropriate or if required by the Board.
6. Monitoring the investment management firms and products employed by the Board on an on-going basis and inform the Board of any developments that might impact performance or the Investment Program.
7. Educating the Board on investment issues that could impact the Plans or the Investment Program.

D. CUSTODIAN

The trustee/custodian has three primary responsibilities, namely: (1) Safekeeping of Assets – custody, valuation and accounting & reporting of assets owned by the Plan; (2) Trade Processing – track and reconcile assets that are acquired and disposed; and, (3) Asset Servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and proxy notification issues.

The Custodian provides the services listed below:

1. Adequate safekeeping services for both domestic and international securities.
2. Timely settlement of securities transactions, including cross-border investments.
3. Proper pricing and valuation of equities, fixed-income and international securities.
4. Timely collection of income, including tax reclaim.
5. Suitable accounting services and able to handle plan/trust accounting.

6. Preparation of useful, accurate, and timely investment accounting and audited reports.
7. Provide adequate valuation and tracking of derivatives.
8. Able to track alternative investments such as Private Equity, Real Estate and Fund of Funds, including Hedge Funds.
9. Acceptable administrative support to the Board and the Plans.
10. Appropriate data processing capabilities, including on-line access to custody, accounting information, and other ancillary services as contracted with the custodian.
11. Prompt and accurate administration of corporate actions, including proxy issues.
12. Direct, accurate daily communications with investment managers to ensure trades are correct and confirmed.
13. Proactive reconciliation with investment managers at least monthly before monthly audited statements are rendered.
14. Immediate communication with the LFUCG staff or the Board regarding any concerns or issues with respect to services provided by the Custodian.
15. Appropriately manage the securities lending program according to the guidelines established in this Investment Policy Statement. (this is only applicable if custodian is allowed to lend securities and/or a third party securities lending agent(s) is involved.)
16. Provide quarterly reporting to participating investment managers regarding the commission recapture trading. (if applicable only – the client may not have a commission recapture program)
17. Cash sweeps of idle cash balances in short term investment vehicles that are consistent with the investment guidelines -7.

E. INVESTMENT MANAGERS

The specific duties and responsibilities of each investment manager include:

1. Managing those assets of the Plans that are under the supervision of the investment manager in accordance with the guidelines and objectives contained in this Investment Policy Statement, and consistent with each

investment manager's stated investment philosophy and style as presented by the investment manager representatives to the Board.

2. Exercising investment discretion in regard to buying, managing and selling Plan assets under the supervision of the investment manager, subject to any limitations contained in this Investment Policy Statement.
3. Promptly voting all proxies and taking all related actions in a manner consistent with the long-term interest and objectives of the Plans as described in this Investment Policy Statement. Each investment manager shall keep detailed records of his or her voting of proxies and related actions and will comply with all regulatory obligations related thereto.
4. Communicating with the Board in writing regarding all significant changes pertaining to Plan assets under the supervision of the investment manager or relating to the investment manager itself such as changes in ownership, organizational structure, financial condition, and professional staff of the investment manager. The Board must receive such communications no more than three (3) days after the change occurs. Proactive communication is expected.
5. Using at least the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules, and regulations
6. To acknowledge and agree in writing as to the investment manager's fiduciary responsibility to fully comply with the objectives and guidelines set forth in this Investment Policy Statement or otherwise set out by the Board for such investment manager.

F. ACTUARY

The primary responsibility of the actuary for the Plans is to perform for the Plans an annual actuarial valuation of the Plans and to determine the minimum required and maximum tax-deductible contributions to the Plans for the plan year.

G. INDEPENDENT AUDITOR

The primary responsibility of the independent auditor for the Plans is to perform audits of the financial statements of the Plans as directed by the Plan Administrator and issue audit opinions regarding such financial statements that comply with all applicable laws and governmental rules and regulations and acceptable accounting and auditing standards.

IV. Asset Allocation Guidelines

The asset allocation policy established by the Board for the Plans is intended to reflect, and be consistent with, the Board's return objectives and risk tolerance expressed in this Investment Policy Statement. The asset allocation policy, developed by the Board and the Investment Consultant after examining the historical relationships of risk and return among the Plans' asset classes and the relationship between the expected behavior of the Plans' assets and liabilities, is designed to provide the greatest probability of meeting or exceeding the Plans' objectives at the lowest possible risk

In establishing the Board's risk tolerance for the Plans, the Board considered the Plans' ability to withstand short and intermediate-term volatility in various market conditions. The Board also reviewed the long-term characteristics of various asset classes, focusing on balancing risk with expected return. Accordingly, the Board selected the following five asset classes as allowable asset classes for investments under the Plans: U.S. equities; Real Estate, U.S. fixed-income securities; non-United States equities (EAFE and emerging markets), and Real Return. On the basis of the Board's time horizon and risk tolerance, the following asset allocation guidelines have been established for the Plans.

Asset Class/ Manager Role	Target Allocation
Total Domestic Equity	40%
International Equity	23%
Total Fixed Income	23%
Real Estate	9%
Real Return	5%
Total Plan	100%

The asset allocation target will be reviewed annually for reasonableness in relation to significant economic and market changes or to changes in the Board's long-term goals and objectives. A formal asset allocation study will be conducted every five years to verify or provide a basis for revising the targets.

V. INVESTMENT MANAGER STRUCTURE

The Committee has developed an investment management structure that emphasizes simplicity and cost control. The Board has employed the minimum number of managers necessary to assure appropriate diversification within each asset class. The table below lists the specific roles to which individual investment managers are assigned and the target allocation of assets for each manager. In cases where there may be business or liquidity risk associated with allocating the full allocation to a single manager or where the fund may benefit from complementary approaches, two or more firms may be employed in a similar role.

Investment Manager Structure Allocations

Investment Style	% of Asset Class	% of Total Fund
Domestic Equity		
Passive Large Cap Core	12.5%	5%
Active Large Cap Growth	25%	10%
Active Large Cap Value	25%	10%
Small Cap Equity	37.5%	15%
International Equity		
Value	40%	9.25%
Growth	40%	9.25%
Emerging Markets	20%	4.5%
Fixed Income		
Core	17%	4%
Core	50%	11.5%
High Yield	33%	7.5%
Real Estate	***100%***	**9%**
Real Return	***100%***	**5%**

REBALANCING POLICY

One essential component of a strategic asset allocation policy is the development and use of rebalancing ranges for the target allocation. The Board believes that systematic rebalancing should reduced portfolio volatility and increase portfolio return over the long term. The ranges specified in the table below are a function of the expected volatility of each asset class and the proportion of the total fund allocated to the asset class.

Asset Allocation	Lower Limit	Target	Upper Limit
Domestic Equities	**30%**	**40%**	**50%**
Active Large Cap Value	5%	10%	15%
Active Large Cap Growth	5%	10%	15%
Passive Large Cap Core	0%	5%	10%
Small Cap Equity	10%	15%	20%
Non-U. S. Equity	**17%**	**23%**	**29%**
Value	4%	9.25%	14%
Growth	4%	9.25%	14%
Emerging Markets	0%	4.5%	9%
Domestic Fixed Income	**17%**	**23%**	**29%**
Core	0%	4%	8%
Core	6%	11.5%	16%
High Yield	5%	7.5%	10%
Real Estate	**6%**	**9%**	**12%**
Real Return	**3%**	**5%**	**8%**

If a Plan experiences positive cash flow (*i.e.*, contributions exceed disbursements), the Board will rebalance the Plan's assets by directing new contributions to the under-allocated assets. If a Plan experiences negative cash flow, funds to make distributions will be withdrawn from over-allocated assets. The Board has been advised by the Investment Consultant that if asset allocations are managed as provided above, that a Plan should not incur any additional transaction costs beyond those that would have been normally incurred to liquidate or acquire Plan assets. If the Plan's cash flow is not sufficient to keep the allocation within the defined ranges stated above and purchase or sale transactions are required to rebalance the Plan assets, the Board, at its discretion, can rebalance the Plan assets to the target level or to some point within the target range based on the relative cost of such rebalancing and such other factors as the Board determines.

The Investment Consultant shall prepare quarterly reports reviewing the actual asset allocation percentages, demonstrating whether the lower or upper limits have been reached. When asset allocations exceed the ranges indicated above the Fund Board will rebalance to the target level or to a point within the target range if the Board deems such action appropriate. External cash flows may be used to rebalance Plan assets as determined by the Board. Plan assets should be rebalance no less than annually.

VI. TOTAL FUND PERFORMANCE OBJECTIVES

The total fund has been designed to meet the plan objectives as defined in the introduction of this document. The overall portfolio design and asset allocation have been structured to provide the most appropriate structure and asset allocation from a risk and return perspective to meet this long term objective.

The primary benchmark for evaluating the performance of the Investment Program is a Target Index consisting of a market index for the asset class weighted in accordance with the allocation target. The Target Index is:

25% Russell 1000 Index
15% Russell 2000 Index
23% MSCI ACWI ex US IMI Index
23% BC Aggregate Bond Index
9% NFI ODCE Index
5% CPI

Over a five year period the Board expects the Investment Program to generate returns, after payment of all fees and expenses, which exceed the returns of the Target Index.

VII. INVESTMENT MANGER GUIDELINES

DOMESTIC EQUITY GUIDELINES

Approved Securities

1. Common stock of any issuer traded on a U.S. stock exchange or in the U.S. over-the-counter markets which are denominated in U.S. dollars
2. Securities which take the form of sponsored and/or unsponsored American Depository Receipts ("ADRs") Global Depository Receipts ("GDRs") and/or European Depository Receipts ("EDRs")
3. Stock purchase rights and warrants of any issuer for which equity may be purchased
4. Preferred stocks (convertible and non-convertible) of any issuer for which equity may be purchased
5. Master limited partnership interests (if publicly traded)
6. Securities of special purpose issuers of all types including without limitation unit investment trust (SPDRs), open-end and closed-end funds and real estate investment trusts;

Limitations

1. The following categories of equity securities are prohibited:
   - Securities of the investment manager or an affiliated organization
   - Short Sales,
   - Put and call options,
   - Margin purchases,
   - Commodities,
   - Direct real estate investments,
   - Foreign listed stocks.
2. Equity futures contracts may be employed solely for the purpose of overlaying cash to generate equity exposure

3. Investment in any one issuer can not exceed five percent of assets in the portfolio at the time of purchase. No more than 10% of the market value of the portfolio may be held in any one issuer at any time.
4. Investment in any one sector, as defined by either S&P or Russell Indexes is limited to +/ - 10 percent of the market value of assets in the sector.
5. Investment in any one company in the client portfolio may be no more than five percent of the total market value of that company.
6. Foreign securities, including foreign stock listed on U.S. exchanges and ADRS, are limited to 15% of the portfolio measured at market value.

Cash and Equivalents

The Board expects domestic equity managers to invest portfolios primarily in U.S. common stocks. However, investment in cash equivalents up to 5% of the market value of the portfolio is allowed. To the extent the portfolio holds cash, the cash will be invested in the commingled short-term investment fund managed by the Custodian consistent with OCC Reg 9 and/or SEC Rule 2a-7.

INTERNATIONAL EQUITY GUIDELINES

Approved Securities

1. Foreign equity securities, defined as equity securities that are issued by any company that is organized or headquartered in a foreign country, or whose primary business (75% or more) is conducted outside the U.S.
2. Foreign securities may include preferred stock, stock purchase rights and warrants of any foreign issuer for which equity may be purchased.
3. American Depository Receipts; European Depository Receipts; Global Depository Receipts; or similar instruments representing securities of foreign companies.

Limitations

1. The following categories of equity securities are prohibited:
   - Securities of the investment manager or an affiliated organization
   - Short Sales,
   - Put and call options,
   - Margin purchases,
   - Commodities,
   - Direct real estate investments
2. Investment in any one issuer can not exceed five percent of assets in the portfolio at the time of purchase.
3. Investment in any one sector, as defined by either Morgan Stanley Capital International or Financial Times, is limited to +/ - 10 percent of the sector weighting of the Index.
4. Investment in emerging market companies may not exceed 20% of the market value of the portfolio.
5. Equity futures contracts may be employed solely for the purpose of overlaying cash to generate equity exposure

Cash and Equivalents

The Board expects non-U.S. equity managers to invest portfolios primarily in non -U.S. common stocks. However, investment in cash equivalents up to 5% of the market value of the portfolio is allowed. To the extent the portfolio holds local or base currency cash, the cash will be invested in the commingled short-term investment fund managed by the Custodian and/or an interest bearing account consistent with OCC Reg-9 and/or SEC Rule 2a-7.

FIXED INCOME GUIDELINES

Core Bond Mandates

Approved Securities

1. Obligations, issues or guaranteed by the U.S. Federal Government, U.S. Federal agencies or US. Government sponsored corporation and agencies.
2. Obligations of U.S. corporations such as mortgage bonds, convertible and non-convertible notes and debentures, preferred stocks, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding companies
3. Mortgage backed and asset backed securities
4. Obligations issued or guaranteed by local, city and state governments and agencies
5. Securities defined under Rule 144A and commercial Paper dined under Section 4(2) of the Securities act of 1933
6. Collateralized repurchase agreements and reverse repurchase agreements
7. Loan participations.
8. Variable and floating rate securities.
9. Preferred Stock.
10. Asset backed securities.

Limitations

1. The weighted average credit quality of portfolio holding will not fall below AA- or equivalent.

2. No investments in issues rated below Baa3 or BBB-, A2 or P2.

3. No non-U.S. securities (dollar and non-dollar)

4. Should a security be downgraded to a rating of "B" or below, the investment manager will determine the appropriate action (sell or hold) based on the perceived risk and expected return of the position and will inform the Board and the Investment Consultant in writing of the action taken.

5. Private mortgage backed and asset backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhances is generated internally, in which case the limit is 25% per issuer.

6. Obligations of other issuers are subject to a 5% per issuer limit excluding investments in commingled vehicles.

7. No more than 5% of the fixed income portfolio, at time of purchase, may be invested in any one company, except for government or agency issues.

High Yield Bond Mandates

Approved Securities

1. Obligations, issues or guaranteed by the U.S. Federal Government, U.S. Federal agencies or US. Government sponsored corporation and agencies.
2. Obligations of U.S. corporations such as mortgage bonds, convertible and non-convertible notes and debentures, preferred stocks, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding companies
3. Mortgage backed and asset backed securities
4. Obligations, including the securities or emerging market issuers, denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign government (or their subdivisions or agencies, as well as foreign currency exchange-related securities, warrants and forward contracts.
5. Obligations issued or guaranteed by local, city and state governments and agencies
6. Securities defined under Rule 144A and commercial Paper dined under Section 4(2) of the Securities act of 1933
7. Collateralized repurchase agreements and reverse repurchase agreements
8. Loan participations.
9. Variable and floating rate securities.
10. Preferred Stock.
11. Asset backed securities.

Limitations

1. The weighted average credit quality of portfolio holding will fall below Baa3 or BBB-, A2 or P2
2. No non-U.S. securities (dollar and non-dollar)
3. Private mortgage backed and asset backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhances is generated internally, in which case the limit is 25% per issuer.
4. Obligations of other issuers are subject to a 5% per issuer limit excluding investments in commingled vehicles.
5. No more than 5% of the fixed income portfolio, at time of purchase, may be invested in any one company, except for government or agency issues.

REAL ESTATE GUIDELINES

Core Real Estate

Portfolio Composition

Core Characteristics

- Operating and substantially leased (greater than 80%) core quality properties
- Property types typically include the four main property types: office, apartment, retail, industrial
- Total return is primarily attributable to income
- Low to no leverage (typically no higher than 40%)

Investment Structures

The Board recognizes that, regardless of investment vehicle, real estate is an illiquid asset class. Vehicles that promote diversification and maximize investor control of the assets are preferred, particularly in Core investments. The Board also recognizes that certain strategies and vehicle structures require the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.

Collective Investment Vehicles

For Core investments, the Board may purchase assets through the ownership of units or shares of Commingled Fund structures. The commingled fund structures can be open or closed ended. It is generally expected that Core strategies will be accessed through open-ended fund structures. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations.

Both IMA's and commingled funds may be considered for Public Real Estate Securities investments. Investment structure utilized will depend on particular investment criteria and issues including, but not limited to, investment strategy, custodial requirements, size of mandate, and vehicle availability.

Diversification

The Retirement System will seek to diversify its equity real estate portfolio by manager; property type; property location; investment strategy; investment size; and investment vehicle.

Property Types and Location

Rather than maintain specific targets by property type and/or location, the Board has determined that it is appropriate to allow the portfolio to be more heavily exposed to a single property type or location by virtue of current opportunities available in the market, and expectations for optimal risk adjusted returns going forward. Exposure to any single property type (i.e. office, retail, apartment, industrial) or geographic region (East, Mid-West, West or South) in the portfolio is targeted to range from zero percent (0%) to forty percent (40%). Secondary property types are targeted to range from zero percent (0%) to fifteen percent (15%).

Each manager's portfolio will be monitored through annual portfolio reviews. Managers will be allowed to target the property type and locations each firm believes are most likely to provide the best risk adjusted returns based on their supporting research findings.

Commingled Fund Vehicles

Diversification by Strategy and Manager will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the total portfolio. Commingled funds will provide reporting which will allow the Retirement System to monitor its geographic and property type diversification.

Leverage

The Retirement System has approved leverage limits in order to maximize returns to the total portfolio with minimum risk. The Board has approved a maximum of fifty percent (50%) leverage for the total portfolio, at the time of financing. In addition, targets are established for each investment style based on the risk/return profile of the underlying investments.

Core

Core assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at relatively low risk to enhance return. For any single Core IMA asset, third-party debt will be limited to fifty percent (50%), at the time of financing, of the market value of the asset, must provide positive debt-service coverage, be non-recourse and add a minimum of 3 basis points of additional return to the unleveraged IRR for each 1% leverage. Property specific debt will be monitored through the Manager Investment Plans and Preliminary Investment Packages. Leverage will be limited to 40% at the core IMA portfolio level.

For the core open-end commingled fund vehicles, leverage will be limited to the levels stated within each fund's terms. Should the fund's portfolio leverage levels exceed the limit stated within the fund terms, no additional capital will be committed to the fund.

Valuations

Investments held in commingled funds will be valued using the methodology approved with the selection of the particular investment.

REAL RETURN GUIDELINES

Portfolio Composition

Characteristics

- Investments in a diversified group of securities designed to outperform the rate of inflation

- Investment typically include the following: fixed income securities including US Treasury Inflation Protection Securities (TIPS), non US inflation linked bonds, REITS, Equity, Commodity Futures, and direct real estate

- Total return is primarily attributable to securities whose prices exhibit inflation sensitivity

- Low to no leverage (typically no higher than 40%)

Investment Structures

The Board recognizes that, regardless of investment vehicle, real estate is a liquid asset class. Vehicles that promote diversification and maximize investor control of the assets are preferred. The Board also recognizes that certain strategies and vehicle structures require the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.

Collective Investment Vehicles

The Board may purchase assets through the ownership of units or shares of Commingled Fund structures. The commingled fund structures can be open or closed ended. It is generally expected that strategies will be accessed through open-ended fund structures. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts and limited liability corporations.

Investment structure utilized will depend on particular investment criteria and issues including, but not limited to, investment strategy, custodial requirements, size of mandate, and vehicle availability.

Money Market Funds

Money Market Funds shall be consistent with the credit, issuer limit, diversification requirements consistent with SEC Rule 2a-7 under the Investment Company Act of 1940.

SECURITIES LENDING GUIDELINES

Maintenance of the integrity and operational functionality of the securities lending program shall be pursued with utmost diligence. The securities lending provider shall have documented policies and procedures in place detailing the following, if not stipulated in the securities lending contract, for both domestic and international securities:

- Borrower limits/creditworthiness
- Acceptable collateral
- Marking to market
- Corporate actions/distributions
- Proxy voting limitations
- Recall of loaned securities
- Revenue splits
- Valuation and reporting of loaned securities and cash collateral reinvestments
- Borrower risk (default)
- Cash collateral reinvestment risk
- Operational negligence
- Counterparty indemnification
- Other relevant policies

The securities lending provider shall at all times exercise prudence and due care and shall comply at all times with all laws, rules and regulations, including but not limited to the laws, rules and regulations of banking and securities regulatory bodies, taxation authorities and the Department of Labor.

Collateral Management

The securities lending provider shall exercise prudence and reasonable care in discharging its discretion in the investment management of cash and non-cash collateral, including asset/liability (gap) management that is appropriate relative to the market environment or conditions in which the securities lending provider is operating.

Securities lending provider shall provide documentation of their collateral reinvestment fund detailing the following:

- Investment management
- Eligible cash market instruments
- Eligible derivative instruments
- Credit quality
- Corporate obligations
- Instruments of U.S. and foreign banks
- Sovereign debt obligations
- Repurchase agreement
- Commingled funds
- Investment restrictions and concentration limits
- Liquidity and investment maturity
- Policy adjustments and exceptions
- Investment limitations, prohibited transactions and restrictions on self dealing

The Board has determined that the following instruments and "exotic derivatives" listed below are not appropriate investment for assets of the Plans and no assets of the plans may be invested in such instruments or investments at any time:

- Highly leveraged structured notes
- Range floaters
- Capped floaters
- COFI floaters
- Dual Index Floaters
- CMT floaters
- Inverse floaters and leveraged floaters
- Non U.S. dollar denominated collateral.

Leverage is strictly prohibited.

Provided that the management of collateral, specifically cash, imposes the greater risk, the securities lending provider shall adhere to the securities lending overall investment objective as agreed to. Policies regarding issuer, credit, exposure and rating limits utilized in the securities lending program per investment vehicle shall be under the full discretion of the provider, and appropriate and consistent with the program guidelines. Issues such as exposure guidelines, prohibited securities for cash investment, duration strategies, and matched and mismatched book are both strategic and tactical investment functions and shall be consistent with the above objective.

Prohibited Investments All managers are prohibited from using warrants, options, futures, collectibles, hedge funds, LLCs, unit investment trusts, margin purchases or short sales, securities of Fund service providers (custodial bank notwithstanding), and loaning or pledging securities.

VIII. INVESTMENT MANAGER SELECTION AND EVALUATION

A. INVESTMENT MANAGER SELECTION

The Board will utilize a process for investment manager selection that embodies the principles of procedural due diligence. Accordingly, when selecting investment managers, the Board will employ a competitive search process, including the following steps or such other steps as the Board determines in the situation:

1. Formulation of specific investment manager search criteria that reflect the requirements for the investment manager role under consideration.
2. Identification of qualified candidates from the manager search database maintained by the Investment Consultant and such other sources as determined by the Board.
3. Analysis of qualified candidates in terms of:
   - Quantitative characteristics, such as CFA GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.
   - Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
   - Organizational factors, such as type and size of firm, ownership structure, client-servicing capabilities, ability to obtain and retain clients, and fees.
4. Selection and interview of finalist candidates based on a due diligence report prepared for the Board by the Investment Consultant summarizing the analysis described above.

B. MANAGER COMMUNICATION GUIDELINES

The Fund will be in regular communication with their Investment Managers and will require informal and formal communication channels. There are four basic elements of the communications program: 1) on-site due-diligence meetings, 2) quarterly reporting requirements, 3) monthly reporting requirements, and 4) event-driven reporting requirements.

1. On-Site Due-Diligence Visits (as needed) PFRF and PFRF's consultant will schedule due-diligences visit in the investment managers' office when appropriate.

2. Quarterly Reporting Requirements

   Investment managers will send the following information directly to PFRFand the consultant no later than the 15th calendar day following quarter-end:

   - Time-weighted rates of return for the quarter, YTD, and since inception on a before-fee basis.
   - Performance commentary that, in bullet format, explains the primary factors that helped performance and the primary factors that hurt performance during the quarter.
   - Strategy statement that briefly describes the portfolio strategies currently in place.

   Managers will send a Compliance Statement that attests to the investment managers' compliance with PFRF's investment policies and guidelines throughout the entire quarter, as described in PFRF's Investment Policy Statement.

3. Monthly Reporting Requirements

   Managers will be directed to send the following information directly to PFRF and the consultant by the 10th calendar day following month-end:

   - Time-weighted rate of return for the month.
   - Asset listing that contains a description of all securities held in the portfolio at month-end with a net market value.

4. Event-Driven Reporting Requirements

   Manager shall be directed to call, fax, or email the PFRF and the consultant no later than the third calendar day following any one of these types of events: Changes to organization, investment philosophy, decision-making process, financial condition, ownership, or professional staff.

C. MANAGER EVALUATION AND REVIEW

The Board will, with the assistance of the investment consultant; evaluate each investment manager from a quantitative and qualitative standpoint on a quarterly basis. In evaluating all investment managers, the Board will consider qualitative factors likely to impact the future performance of the Plans' assets managed by an investment manager in addition to current and historical rates of return.

The Board believes that it is appropriate to include "objective standards" designed to guide future decisions regarding investment managers.

1. Qualitative Review

   The Board will evaluate qualitative factors relating to an investment manager, including:

   - Ownership changes (e.g., key people "cash out")
   - Key people leave firm
   - Conflict of Interest
   - Changes in investment strategy the investment manager was employed by the Board to implement
   - Investment manager is involved in material litigation or fraud
   - Material client-servicing problems

2. Quantitative Review

   Long-term performance standards used by the Board should measure an investment manager's performance from inception and on a rolling five-year returns basis in relation to a broad market index or indices that the investment manager previously agreed to be measured against. If an investment manager fails to generate a return premium in excess of the agreed-upon index or indices, then, upon completion of appropriate due diligence or such other steps as the Board determines, the Board may decide to terminate the contract with the investment manager.

   Shorter-term performance will be measured in relation to an appropriate style index and "Peer Group". Each investment manager is to be measured against the median return of a previously agreed-upon peer group of investment managers with similar investment styles.

   Managers are expected to maintain their stated investment style and philosophy. Quantitative measures of investment style and philosophy include style mapping, style attribution analysis, and tracking error relative to the benchmark. XYZ Pension Plan with the assistance of the Investment Consultant will monitor these factors on a quarterly basis.

Notwithstanding any other provision of this Investment Policy Statement or the Investment Program, the Board retains the right to terminate the contract with, and the services provided to the Board by, an investment manager at any time. The Board believes that the decision to retain or terminate an investment manager or other Service Provider on the Board's reasoned judgment and the Board's confidence in the investment manager's or other Service Provider's ability to perform in the future.

S&P 500 Index

Rate of Return Objectives

- The Fidelity Spartan S&P 500 Index Fund (the "Fund") will be expected to provide returns that approximate the results of the S&P 500 Index.

Risk and Risk Adjusted Return Expectations

- The Fund will be expected to have a tracking error relative to the S&P 500 Index of [0.25%].

Diversification and Style

- The Fund will include the common stock of those companies included in the S&P 500 Index, as the trustee of the Fund (the "*Trustee*") from time to time, on the basis of computer-generated statistical data, deems representative of the industry diversification of the entire S&P 500 Index. Such stocks will be selected, acquired and retained by the Trustee solely on the basis of such data. The Fund will be rebalanced from time to time in order to minimize the expected or predicted deviation between the performance of the Fund or to reflect changes in the composition of the index.

- The Fund may participate in securities lending. Fidelity acts as securities lending agent for the Fund and receives 25 percent of the securities lending revenue as fee (net of rebates and other expenses). The balance of the securities lending revenue will contribute to the return of the Fund.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- The Fund and the Trustee will operate in a manner consistent with the written guidelines for the Fund provided by Fidelity to the Board.

Large Cap Value Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Dodge & Cox for the Board should outperform Callan's Large Cap Value Style Group and the Russell 1000 Value Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the Russell 1000 Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Russell 1000 Value Index) in line with that of the median large cap value manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median large cap value manager tracked by Callan.

Diversification and Style

- The portfolio will hold only large capitalization securities.

- Typically the portfolio will hold securities of between 50-80 different issuers.

- Over time, the portfolio's characteristics should be within a reasonable range of other large cap value managers tracked by Callan. Those characteristics should translate to a combined "z-score" less than zero (0).

Large Cap Growth Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Jennison Associates for the Board should outperform Callan's Large Cap Growth Style Group and the Russell 1000 Growth Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the Russell 1000 Growth Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Russell 1000 Growth Index) lower than the median large cap value manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median large cap growth manager tracked by Callan.

Diversification and Style

- The portfolio will hold only large capitalization securities.

- Typically the portfolio will hold securities of between 50-90 different issuers.

- Over time, the portfolio's characteristics should be within a reasonable range of other large cap value managers tracked by Callan. Those characteristics should translate to a combined "z-score" less than zero (0).

Small Cap Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Neuberger Berman for the Board should outperform Callan's Small Cap Value Style Group and the Russell 2000 Index.
- Over the long term (defined as a period longer than three (3) years) the portfolio will be expected to outperform the Russell 2000 Index.

Risk and Risk Adjusted Return Expectations

- The portfolio will have a Standard Deviation and tracking error (relative to the Russell 2000 Index) in line with the median small cap equity manager in the Callan Style Group.
- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median small cap value manager tracked by Callan.

Diversification and Style

- The portfolio's emphasis will be on securities of issuers with capitalization of between $100 million and $3 billion.
- Typically the portfolio will hold securities of between 90 and 110 different issuers.
- Over time the portfolio's characteristics should be consistent with other small cap managers tracked by Callan. Those characteristics should translate to a combined "z-score" less than zero (0).

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- Neuberger Berman will operate within the guidelines delineated in Section VI of the Investment Policy Statement except that foreign securities, including foreign stock listed on United States exchanges and American Depositary Receipts, are limited to 20 percent of the market value of the portfolio at date of purchase.

International Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolios managed by Acadian Asset Management and Barings Asset Management for the Board should outperform Callan's Non-U.S. Equity Style Group and the MSCI EAFE Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the MSCI EAFE Index.

Risk and Risk Adjusted Return Expectations

- The portfolios are expected to have a Standard Deviation of returns and tracking error (relative to the MSCI EAFE Index) in line with the median international equity manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolios should have risk adjusted returns as represented by the Sharpe Ratio above the median international equity manager tracked by Callan.

Diversification and Style

- The portfolios will purchase primarily large, mid and small capitalization securities, defined as securities of an issuer with a market cap of at least $500 million at time of purchase.

- Typically the portfolios will hold securities of between 90 and 100 different issuers.

- Over time the portfolio's characteristics should be consistent with other international equity managers tracked by Callan. Those characteristics should translate to a combined "z-score" in line with their respective peer groups

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- Acadian Asset Management and Barings Asset Management will operate within the guidelines delineated in Section VI of the Investment Policy Statement.

Emerging Markets Equity

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by Capital International for the Board should outperform Callan's Emerging Markets Equity Style Group and the MSCI EM Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the MSCI EM Index.

Risk and Risk Adjusted Return Expectations

- The portfolios are expected to have a Standard Deviation of returns and tracking error (relative to the MSCI EM Index) in line with the median international equity manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolios should have risk adjusted returns as represented by the Sharpe Ratio above the median international equity manager tracked by Callan.

Diversification and Style

- The portfolios will purchase primarily large, mid and small capitalization securities, defined as securities of an issuer with a market cap of at least $50 million at time of purchase.

- Typically the portfolios will hold securities of between 150 and 300 different issuers.

- Over time the portfolio's characteristics should be consistent with other international equity managers tracked by Callan. Those characteristics should translate to a combined "z-score" in line with their respective peer groups

Real Estate

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by JP Morgan for the Board should outperform the median of Callan's Real Estate database.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the NFI ODCE Index.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns similar to the median Real Estate managers tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median Real Estate manager tracked by Callan.

Diversification and Style

- The objective of the portfolio is to provide current income with long-term appreciation potential by investing primarily in private real estate that derive a substantial portion of their revenues from the real estate industry ("*Real Estate Securities*").

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- The portfolio will have up to 100% of the portfolio invested in Real Estate Securities.

Core Fixed Income

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolios managed by Segall Bryant & Hamill and Hillswick for the Board should outperform Callan's Core Fixed Income Style Group and the Barclay's Capital Aggregate Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the Barclay's Aggregate Bond Index.

Risk and Risk Adjusted Return Expectations

- The [duration] of the portfolio will be constrained within +/- 20 percent of the benchmark provided above.

- All assets held by the portfolio will be investment grade (*i.e.*, rated BBB- or A-2 or higher by Standard & Poors or rated Baa3 or Prime-2 or higher by Moody's).

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the Barclay's Aggregate Bond Index) similar to the median core fixed income manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median fixed income manager tracked by Callan.

Diversification and Style

- The portfolio at all times will be diversified among the major market sectors, subject to the following limitations:

  - Private mortgage-backed and asset-backed securities are limited to 10 percent per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25 percent per such issuer.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- Segall, Bryant & Hamill and Hillswick will operate within the guidelines delineated in this Investment Policy Statement.

High Yield Fixed Income

Rate of Return Objectives

- Over a short to intermediate period (defined as a period of three (3) years or less) the portfolio managed by MacKay Shields the Board should outperform Callan's High Yield Fixed Income Style Group and the CSFB High Yield Index.

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform the CSFB High Yield Index.

Risk and Risk Adjusted Return Expectations

- The [duration] of the portfolio will be constrained within +/- 20 percent of the benchmark provided above.

- All assets held by the portfolio will be below investment grade (*i.e.*, rated BBB- or A-2 or lower by Standard & Poors or rated Baa3 or Prime-2 or lower by Moody's).

- The portfolio is expected to have a Standard Deviation of returns and tracking error (relative to the CSFB High Yield Bond Index) similar to the median high yield fixed income manager tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median fixed income manager tracked by Callan.

Diversification and Style

- The portfolio at all times will be diversified among the major market sectors.

Exceptions to Investment Manager Policies—Section VI (General Investment Manager Guidelines)

- MacKay Shields will operate within the guidelines delineated in Section VI of the Investment Policy Statement.

Real Return

Rate of Return Objectives

- Over the long term (defined as a period longer than three (3) years) the portfolio is expected to outperform CPI.

Risk and Risk Adjusted Return Expectations

- The portfolio is expected to have a Standard Deviation of returns similar to the median Real Return managers tracked by Callan.

- For intermediate to long term periods (three (3) years or longer) the portfolio should have risk adjusted returns as represented by the Sharpe Ratio above the median Real Return manager tracked by Callan.

Diversification and Style

- The objective of the portfolio is to provide a hedge against rising inflation. Portfolio investments are to be diversified across assets that exhibit sensitivity to inflation including, but not limited to: real estate, fixed income, equity, commodities and inflation linked bonds.

IX. INVESTMENT POLICY REVIEW PROCEDURES

The Board will review annually the achievement of investment objectives and monitor performance on a quarterly basis, based on the evaluation criteria provided by the Investment Consultant. The annual review will focus on the continuing feasibility of achieving the investment objectives and the continued appropriateness of the investment policy. It is not expected that the investment policy will change frequently; in particular, short-term changes in the financial markets generally should not require an adjustment in the investment policy.

As a general rule, this investment policy should be reviewed every three to five years by the Board. However, specific policy issues may be visited whenever the Board deems necessary. Specific occurrences which might suggest to the Board an earlier review are:

- Significant changes in Plan demographics, or benefit design;
- Significant changes in expected contributions;
- Changes in the overall marketplace;
- The availability of acceptable new asset classes, or the improvement of data on previously known but inadequately understood asset classes to the point where the asset class might reasonably be considered;
- The availability of new technology, the application of which the Board believes will improve this investment policy; and
- The passage of relevant new legislation or regulations.

This Statement of Investment Objectives, Policies and Procedures was adopted and approved by the Board at a duly convened regular meeting on the 13th day of February, 2013.

Mayor Jim Gray, Chairman

ATTEST:

Susan Combs

Susan Combs, Secretary

Exhibit A

Service Providers

Asset Class	Manager
S&P 500 Index Fund	Fidelity Management & Research 300 Puritan Way Marlborough, MA 01752
U.S. Large Cap Value Equities	Dodge & Cox Investment Managers One Sansome Street, 35th Floor San Francisco, CA 94104 415-981-1710
U.S. Large Cap Growth Equities	Jennison Associates 466 Lexington Ave New York, NY 10017 212-421-1000
U.S. Small Cap Equities	Neuberger & Berman, LLC 605 Third Avenue New York, NY 10158-3698 212-476-5548
International Equity	Acadian Asset Management One Post Office Square Boston, MA 02109 617-850-3500
International Equity	Baring Asset Management 155 Bishopsgate, London London EC2M 3XY 617-496-5200
Emerging Markets Equity	Capital International Inc. 11100 Santa Monica Way, 15th Floor Los Angeles, CA 90025 310-996-6000

U.S. Broad Market Fixed Income	Segall Bryant & Hammill 10 S. Wacker Drive, Suite 3500 Chicago, IL 60606 800-836-4265
U.S. Broad Market Fixed Income	Hillswick Asset Management 600 Summer Street, Suite 203 Stamford, CT 06901 203-425-1420
U.S. High Yield Fixed Income	MacKay-Shields Financial Corporation 9 West 57th Street New York, NY 10019 212-230-3813
U.S. Real Estate	JP Morgan 245 Park Avenue New York, NY 10167
Real Return	Manager TBD

Other Services

Actuarial Services	Cavanaugh MacDonald 3550 BusBee Parkway, Suite 250 Kennesaw, GA 678-388-1700
Custodian Services	JP Morgan, Kentucky 201 East Main Street Lexington, KY 40507-2002 859-231-2407
Performance Consultant	Callan Associates, Inc 120 N. LaSalle, Suite 2100 Chicago, IL 60602 312-346-3536
Securities Lending	JP Morgan P.O. Box 710211 Columbus, OH 43271-0211 614-213-4962

Exhibit B

SIGNATURES

By the respective signatures of their duly authorized representatives, each party acknowledges and agrees that it will perform its respective responsibilities and services with respect to the Plans in accordance with this Investment Policy Statements.

______________________ LFUCG PFRF	______________________ Barings Asset Management
______________________ Date	______________________ Date
______________________ Dodge & Cox	______________________ Segall Bryant & Hamill
______________________ Date	______________________ Date
______________________ Jennison Assocaites	______________________ Hillswick
______________________ Date	______________________ Date
______________________ Neuberger Berman	______________________ JP Morgan
______________________ Date	______________________ Date
______________________ Acadian Asset Management	______________________ MacKay Shields
______________________ Date	______________________ Date

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Fidelity	Capital International
Date	Date