HOUSTON FIREFIGHTERS' RELIEF & RETIREMENT FUND

INVESTMENT POLICY STATEMENT

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1.0 PURPOSE

The purpose of this Investment Policy Statement is to assist the Board of Trustees (Board) of the Houston Firefighters' Relief and Retirement Fund (Fund) in the investment management of the Fund assets. The authority to amend these policies and procedures rests solely with the Board. The Investment Committee is a committee of the whole Board and has the authority to act on all matters related to investments.

2.0 GOALS AND OBJECTIVES

The goal of the Fund's investment program shall be to grow the corpus of the Fund's assets while maintaining the ability to pay the benefits promised by the Board to the Fund retirees and beneficiaries. This goal shall be achieved by earning an average annual return over rolling ten-year periods at least equal to the target rate of return which is currently 8.5% net of investment management fees. The Board may adjust the target rate of return when appropriate.

The primary objective of the Fund's investment program is to generate an aggregate return in excess of the Fund's Policy Benchmark net of investment management fees over a five-year period.

The secondary objective is to continually improve the administration, oversight, and Trustee education of the Fund's investment program.

3.0 INVESTMENT PHILOSOPHY

In developing the investment program, the Investment Committee is guided by a set of precepts from which all investment decisions are made and establishes the foundation and direction for all future activity. These precepts are applied by the Investment Committee, knowing the importance of asset allocation and the benefits of diversification. These guiding precepts are as follows:

A) Long-term Focused - The Investment Committee recognizes the long-term (perpetual) nature of the Fund liabilities and an appropriate investment program should have long-term assets and strategies, generally assumed to target a ten-year planning horizon.
B) Value-Driven - The Investment Committee shows preference in buying lower-priced out-of-favor assets as a less risky approach to investment management, but may maintain exposure to growth to enhance portfolio diversification.
C) Relationship-Driven - The Investment Committee believes significant non-quantifiable benefits accrue to the Fund by fostering successful long-term relationships.
D) Opportunistic - The Investment Committee can react with flexibility and agility to take advantage of investments which have a short decision time but exhibit an above-market opportunity, so long as proper due diligence is completed.
E) Contrarian - The Investment Committee is willing to be different from other investors by considering investments, which are unconventional or may not be the current consensus thinking as long as the investment opportunity meets the previously mentioned guiding precepts.

F) Active Management – The Investment Committee has adopted a predominately active manager based philosophy in the belief that over a long-term horizon active management will provide excess risk-adjusted performance over passive strategies.

4.0 PORTFOLIO PERFORMANCE MEASURES

To measure the performance of the overall Fund, the Investment Committee has established a Policy Benchmark, which is reflective of the most recently approved asset allocation study. The Fund's Policy Benchmark is specified in Section 6.0.

The reported investment performance of the Fund will be calculated by the Fund's custodian bank, an unaffiliated organization, with recognized expertise in this field and fiduciary level reporting responsibility to the Fund's Investment Committee. A calculation will be made for the Fund's aggregate, asset class, and investment manager performance using the Global Investment Performance Standards (GIPS®) or a similar standard. Additionally, each investment manager is required to keep performance records and report periodically to the Fund's custodian, internal investment staff, and third-party auditor.

Separately, internal calculations of the Fund's investment manager performance shall be developed by the Fund's investment staff. A time-weighted rate of return calculation shall be used for all public market investment managers. Private equity and real estate investments shall be calculated using an internal rate of return.

The fiscal year of the Fund shall begin on July 1st and end on June 30th. The market value of the Fund shall be maintained on an accrual basis in compliance with Government Accounting Standards Board Statements, industry guidelines, state statutes, or whichever is applicable. The Fund's financial statements and investment returns shall be audited each fiscal year-end by an independent accounting firm in accordance with the Fund's Administrative Policies.

5.0 RISK MANAGEMENT

The Fund ensures adequate risk control through the following means:

A) Diversification
The Investment Committee shall diversify the investment portfolio in order to minimize the impact of the loss from individual investments as may be relevant to an asset class. In addition to achieving diversification by asset class, the Investment Committee shall pay careful attention to diversification within each asset category and subcategory.

B) Portfolio Guidelines
Every portfolio that is a part of the Fund's overall investment portfolio shall operate under written guidelines (Section 7.0 B) approved by the Investment Committee, which are designed to ensure that the portfolio meets its objective and operates within acceptable risk parameters.

6.0 ASSET ALLOCATION AND REBALANCING

The Investment Committee establishes the Fund's asset allocation targets, ranges, and benchmarks. Below are the asset allocation targets, ranges, and benchmarks as of September 21, 2006.

Asset Class	**Range**	**Strategic**	**Benchmark**
Public Markets			
Cash	0.5% - 2%	2%	Custom Cash Benchmark[1]
Domestic Equities	15% - 25%	22%	Russell 3000 Index
International Equities	15% - 25%	19%	MSCI All Country World Ex-US Index
Fixed Income	30% - 40%	36%	Lehman Universal Index
Alternative	0 – 10%	3%	LIBOR plus 3%
Private Markets			
Private Equity	11% - 18%	12%	CA US Private Equity 1QA
Real Estate	4% - 7%	6%	30% NCREIF Property / 70% NCREIF Timberland

1. Citigroup 3-month T-Bill (4/30/1988 – 8/31/1997); ML 90-day T-Bill Index (9/30/1997 – 5/31/2000); ML 1-year T-Bill Index (6/1/2000 – Present).

When necessary (usually appropriate every three to five years) the Investment Committee will undertake a comprehensive review of the Fund’s asset allocation targets and ranges. This may involve an asset-liability study that places the development of investment policy into the context of future benefit payments, liabilities, required funding and the prospective funded status of liabilities.

A) Public Market Rebalancing
The Investment Committee has allocated the assets of the Fund to several asset classes with the objective of optimizing the investment return of the Fund within the framework of acceptable risk and diversification. Each asset class is allowed to operate within its specific range established by the Investment Committee. In addition, a strategic allocation has been established for each asset class for the purpose of performance evaluation and rebalancing. If a public, non-cash asset class reaches an endpoint of its allocation range; the Chief Investment Officer (CIO), with the approval of the Chairman is allowed the discretion to effect a rebalance to within 2.5% of the Strategic Allocation. . Upon completion, the CIO shall report the rebalance to the Investment Committee within the next Monthly Report of Investment Actions Taken.

B) Cash Management
The CIO with the Chairman’s approval is allowed the discretion to use the short-intermediate bond portfolio to manage the cash level within the established asset class range set forth in Section 6.0. If the cash balance rises/falls above/below the asset class range limit, the short-intermediate bond portfolio will be bought/sold to bring the cash within the range. Upon completion, the CIO shall report the transaction to the Investment Committee within the next Monthly Report of Investment Actions Taken. The CIO may not reduce the short-intermediate bond portfolio below US $125 million without the formal approval of the Investment Committee.

7.0 MANAGER SELECTION, GUIDELINES, RETENTION, AND REVIEW

To assist the Investment Committee in the investment management of the Fund assets, professional investment managers will be retained to implement the strategies selected by the Investment Committee. This Policy section will touch on the manager screening and selection process (due diligence), the guidelines applicable to managers hired by the Fund, and the review and retention procedures for managers retained by the Investment Committee.

A) Manager Selection

The Investment Committee with input from the investment staff shall use a disciplined process to screen and select managers consistent with the asset class placement under consideration. The Fund's investment staff shall develop and keep written record of the internal due diligence process. Additionally, the investment staff shall update and educate the Investment Committee of any changes to the process each time the Investment Committee engages in a manager search and selection.

1) Public Market Investments
   a) Investment Committee decides specific mandate placement.
   b) Investment staff identifies candidate managers through databases and other sources, develops appropriate filters such as product type, risk-adjusted performance comparisons, and assets under management to narrow list, and present Request for Proposal (RFP) list to Investment Committee for approval. Once the Investment Committee has approved the RFP list of candidates, additions to the list may be considered by the CIO and Chairman on a case by case basis.
   c) Investment staff analyzes proposals, ranks candidates through additional filters approved by the Investment Committee such as quantitative measures, investment philosophy, manager strengths and weaknesses, firm fundamentals, and fees and transaction expenses and presents analysis with a recommendation to Investment Committee.
   d) Investment Committee selects presentation finalists.
   e) Upon completion of presentations, Investment Committee selects on-site visitation candidates. All Investment Committee members are strongly encouraged to participate in the on-site visits.
   f) Upon completion of on-site visits, Investment Committee selects final manager for asset placement.

2) Private Market Investments
   a) Investment staff reviews proposals and determines appropriateness according to the Fund's investment strategy, philosophy, asset allocation ranges, and capital availability.
   b) Investment staff conducts due diligence on the investment opportunity.
   c) A presentation of the proposed investment is given by the candidate, if requested by the Investment Committee or investment staff.
   d) The Investment Committee decides whether to approve the proposed investment along with commitment level.

3) Cash
   a) Cash management is performed by the custodian bank or a related affiliate.
   b) Changes to custodian and cash manager require Investment Committee approval.

B) Manager Guidelines

Manager guidelines include general guidelines applicable to all managers and specific guidelines unique to each manager.

1) Public Market Investments

a) The specific guidelines for each manager will be developed cooperatively by the Fund's investment staff, legal counsel, and the investment manager and shall be incorporated into an Investment Management Agreement or other binding agreement as is appropriate for the investment.

b) In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Investment Committee, shall supersede. The general guidelines are as follows:

   i. Manager investment philosophy, style, strategy, and structure shall remain consistent and shall not change without the Investment Committee's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Investment Committee at the time of selection and further subject to the restrictions established by the policy herein.

   ii. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the Investment Committee.

   iii. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Investment Committee.

   iv. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the Investment Committee.

   v. Managers shall maintain cash levels consistent with their style as presented to the Investment Committee at the time of selection. Any deviation shall be allowed only after notifying the CIO and should be related to unusual market conditions. The maximum cash level to be held by each manager will be addressed in the Investment Management Agreement or other binding agreement as is appropriate for the investment.

2) Private Market Investments

a) The investment specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement, or other binding agreement as is appropriate for the investment.

b) In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Investment Committee, shall supersede. The general guidelines are as follows:
Manager investment philosophy, style, strategy, shall remain consistent and shall not change without the Investment Committee's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Investment Committee at the time of selection and further subject to the restrictions established by the policy herein.

C) Manager Retention

Upon selecting a manager for placement of Fund assets, the Investment Committee's intent, according to the relationship-driven precept detailed in Section 3.0, is to develop and maintain a successful long-term relationship with the manager.

1) Public Market Investments

The Investment Committee with assistance from the investment staff shall monitor each manager's performance and adherence to style, strategy, and manager specific guidelines. It is the Investment Committee's discretion to take corrective action by replacing a manager if they deem it appropriate at any time. Quantitative and qualitative performance measures shall be monitored as are appropriate to each investment.

a) Manager Watch

The CIO, with approval by the Chairman or the Investment Committee, may place an external investment manager on 'watch' for any of the following reasons:

i. Changes in key staff
ii. Organizational changes (including changes in ownership or legal structure)
iii. Non-compliance with investment guidelines or other contract requirements
iv. SEC compliance, regulatory, legal and ethical issues, or litigation
v. Change in investment style, strategy, or process
vi. Risk becomes unacceptably high or low
vii. Client service and reporting issues
viii. Performance that is highly unusual or outside expectations
ix. Other concerns or issues

Managers will be informed when they are placed on 'watch'. They will also be informed of the rationale for being placed on 'watch' and of key issues that will be monitored and must be resolved for them to be removed from 'watch'. Investment staff will conduct comprehensive monitoring and assessment of the manager during the 'watch' period and provide reports to the Investment Committee within the next Quarterly Manager Watch Report. While a manager is on 'watch', the CIO, with approval by the Chairman or the Investment Committee, may consider initiating a manager search to evaluate if there are preferable candidates for replacement. Notification of the initiation of a search must be included in the next Monthly Report of Investment Actions Taken.

The CIO may remove a manager from 'watch' at any time if satisfied that the concerns no longer apply and if full confidence in future ability to deliver investment performance is restored. Notification of the removal must be included in the Quarterly Manager Watch Report.

b) Manager Termination

The CIO may recommend to the Investment Committee that to be prudent and consistent with the terms of the applicable agreement and the Fund's goals and objectives a manager be replaced or terminated. No manager shall be terminated without the formal approval of the Investment Committee.

2.) Private Market Investments

The Investment Committee with assistance from the investment staff shall monitor each Private Equity and Real Estate manager's performance and adherence to strategy and manager specific guidelines. Quantitative and qualitative performance measures shall be monitored as are appropriate to each investment.

Private Equity and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements, or other binding agreements. In these cases, the Investment Committee with assistance from the investment staff shall identify available options as allowed by the governing documents to determine the impact and consequences of these options. It is the Investment Committee's discretion to take corrective action by removing, replacing, or terminating a manager if they deem it feasible and appropriate at any time.

D) Manager Review
Investment staff shall meet with every Fund investment manager in-person at least once every twenty-four (24) months. The meetings may take place at a posted Investment Committee Meeting, at the Fund office, at the investment manager's office, or at the designated location of an investment manager sponsored portfolio review.

For all meetings outside an Investment Committee Meeting, a written report shall be made available to the Investment Committee at the next regularly scheduled meeting summarizing the meeting's purpose and findings.

All Public Market investment managers shall make a presentation before the Investment Committee at least once every two years.. Private Equity and Real Estate managers shall be reviewed as requested by the Investment Committee. More frequent manager reviews of any manager may be requested by the Investment Committee as needed.

8.0 INTERNAL REPORTING

The CIO coordinates the preparation of reports of the investment performance of the Fund. At a minimum the following formal periodic reports to the Investment Committee shall be the responsibility of the CIO:

(1) Annual report of the Fund's aggregate, asset class, and investment manager investment performance calculated as described in Section 4.0 of this Policy.

(2) Consolidated Quarterly Report - line item of each mandate's investment performance and cash flow activity including fees and expenses if applicable.

(3) Quarterly Trust Universe Comparisons Services (TUCS) Report as prepared by Wilshire.

(4) Quarterly Manager Watch Report.

(5) Monthly Asset Allocation Report.

(6) Monthly Report on Investment Actions Taken.

(7) Chief Investment Officer's Monthly Report.

(8) Senior Investment Officer's Monthly Report.

9.0 OPERATIONAL PROCEDURES

A) Signatures
The signature of all agreements, amendments, consents, and letters of instruction shall be in accordance with the Fund's Administrative Policies Section 1.0. No investment agreements shall be executed on behalf of the Fund without formal approval by the Investment Committee.

B) Amendments, consents, etc.
With the recommendation of the CIO, the Chairman may execute amendments and consents without the approval of the Investment Committee if the resulting changes or allowances are provided for in the governing documents as previously accepted by the Investment Committee or have no economic impact on the investment. Otherwise, such changes are to be formally approved by the Investment Committee. The investment staff shall notify the Investment Committee of all actions taken within the next Monthly Report on Investment Actions Taken.

C) Communications of Intent
No representative of the Fund (Board or staff) shall represent, written or otherwise, that an investment will be made or an approval of the Investment Committee will be given, without the formal approval of the Investment Committee.

D) Distributions from Private Equity or Real Estate Investments
Asset and/or foreign currency distributions from Private Equity or Real Estate Investments with a market value less than 0.25% of total Fund assets may be liquidated by the CIO, with written approval of the Chairman. Since the Investment Committee views these assets as a return from the Private Equity or Real Estate investment and does not intend to contribute these assets to other asset class managers, these assets should be liquidated in a prudent and timely manner. Furthermore, since the Investment Committee does not actively manage currency internally and does not intend to contribute foreign currencies to the international equity allocation, these positions should also be liquidated in a prudent and timely manner. The CIO may defer immediate liquidation if specific knowledge provides a reasonable expectation of value improvement through a longer holding period. Should the CIO decide to hold the asset or currency position in excess of 180 days, or is unable to liquidate the asset within this time period then the Investment Committee shall be advised at the next regularly scheduled Investment Committee meeting.

E) Securities Lending
The Investment Committee has engaged in the lending of the Fund securities for the purpose of generating income from the investment of the related collateral. The income is divided between the Fund and the securities lending agent.. The investment staff monitors the program and ensures that the lending income is split in accordance with the negotiated rate between the Fund and the securities lending agent.

F) Commission Recapture
The Investment Committee has implemented a brokerage commission recapture program for the purpose of lowering the Fund's transactions costs. The investment staff monitors the program and ensures that the recaptured income is directed into the manager's

account according to the commissions generated and the recapture rate negotiated with the brokers used by the manager.

10.0 GOVERNANCE

The Fund acknowledges the importance and significance of adhering to the Exclusive Benefit Rule as expressed in 401(a) of the Internal Revenue Code of 1986 and Chapter 802 of the Texas Government Code.

The primary responsibility of the Fund fiduciaries is to run the plan solely in the interest of participants and beneficiaries and for the **exclusive** purpose of providing benefits and paying plan expenses. Fiduciaries must act prudently and must diversify the Fund's investments in order to minimize the risk of losses. Fiduciaries also must avoid conflicts of interest. In other words, they may not engage in transactions on behalf of the Fund for the purpose of benefiting parties whether related or unrelated to the Fund, such as other fiduciaries, themselves (other than as part of the whole body of plan participants and beneficiaries), services providers, special interest groups, or the plan sponsor.

For the purpose of this Policy, the Exclusive Benefit Rule is met if the following conditions are satisfied:

(1) The investment is to fulfill a specific investment strategy need or to replace a current mandate.

(2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) The cost does not exceed the fair market value at the time of investment.

(4) The investment meets all the typical criteria for investment as defined within this Policy.