

Statement of Investment Policy

The Retirement Board of the Firemen's Annuity and Benefit Fund of Chicago

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**THE RETIREMENT BOARD OF
THE FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO**

***- SECTION I -
STATEMENT OF INVESTMENT POLICY***

INTRODUCTION

The Firemen's Annuity and Benefit Fund of Chicago, Illinois (the "Fund") is subject to the provisions of Chapter 40, Act 5, Articles 1, 1A and Article 6 of the Illinois Compiled Statutes (the "Code"), as amended from time to time. The Fund is administered by the Retirement Board (the "Board"), consisting of eight appointed and elected Trustees.

The Fund is established to provide for the present and future benefit payments for all retired and active firefighter participants and their beneficiaries as authorized under the Code.

The duties of the Trustees, approved delegations to Investment Managers and other fiduciaries, prohibited transactions, and liability for breach of fiduciary duties are set forth in Article 1 of the Code. Fiduciaries must read and abide by these provisions.

RESPONSIBILITIES OF THE RETIREMENT BOARD

The Board is charged by law with responsibility for the management of the Fund. The Board and its members shall discharge their duties solely in the interest of the Fund, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The responsibilities of the Board relating to the investment management of Fund assets include:

1. Establishing reasonable and consistent investment objectives, policies and guidelines governing the investment of Fund assets.
2. Selecting qualified investment professionals, including Investment Manager(s), Investment Consultant(s), and Custodian(s).
3. Determining the Fund's liquidity requirements, investment horizon and risk tolerance and communicating these to the appropriate parties.
4. Evaluating the performance of Investment Manager(s) and other qualified investment professionals to assure adherence to policy guidelines and to monitor investment objective progress.
5. Acknowledge annually, via written signature, compliance with the Fund's Code of Ethics and Conflict of Interest policies.
6. Filing the requisite reports required by the Code with the Illinois General Assembly, the Department of Insurance and related entities.

SCOPE AND PURPOSE OF INVESTMENT POLICY

Scope

This Statement of Investment Policy (the "Statement") reflects the investment policy, objectives, and constraints of the Firemen's Annuity and Benefit Fund of Chicago.

Purpose

This Statement of Investment Policy is set forth by the Board of the Fund in order to:

1. Define and assign the responsibilities of all involved parties;
2. Establish a clear understanding for all parties of the investment goals and objectives of Fund assets;
3. Establish a basis for evaluating investment results;
4. Establish a framework for further review and revision of this policy.

DUTIES OF FIDUCIARIES

Each member of the Board of the Fund is a fiduciary, and is responsible for the management of Fund assets. As such, the Trustees are authorized to retain professional experts including but not limited to:

1. Investment Consultant(s): The Investment Consultant(s) is an advisor to the Board retained to provide investment management advice and act as a fiduciary for the purposes of the duties assumed under the Consulting Services Agreement. The Investment Consultant(s) will provide investment management advice concerning the investment management of Fund assets. Specific responsibilities of the Investment Consultant include, but are not limited to:

- A. Assist in the development and on-going review and maintenance of the investment policy, goals, objectives and portfolio asset allocation.
- B. Conduct Investment Manager searches as authorized by the Investment Committee. As a matter of Trustees' policy, the Fund's Investment Consultant is directed to actively seek qualified Emerging Investment Managers, as such term is defined in the Code, whenever conducting a search for Investment Managers. Pursuant to Section 1-109.1. of the Pension Code, it is the public policy of the State of Illinois to encourage the trustees of public employee retirement systems to use qualified Emerging Investment Managers in managing assets of their respective plans to the greatest extent feasible within the bounds of financial and fiduciary prudence. The Investment Consultant, in conjunction with Fund Investment staff, will conduct the investment manager search and coordinate and communicate directly with the investment managers, pursuant to the Fund's Procurement Policy, adopted June 1, 2009.
- C. Provide research and/or due diligence reports on each of the Fund's investment managers. Evaluate investment manager performance in terms of effective implementation of investment strategy, actual performance versus established return and risk benchmarks, organizational stability, adherence to the investment contract and compliance with investment guidelines and restrictions.

- D. Measure and monitor the performance and risk of the investment managers. Prepare and present quarterly summaries of investment manager activities and performance. Calculate investment performance (gross and net of fees) and risk measurements at the total fund, asset class, investment style, and manager levels. Reconcile discrepancies in performance returns calculated by the investment manager, Fund custodian and Investment Consultant.
 - E. Communicate advice on matters of policy, manager research, manager performance and capital market conditions to the Investment Committee and Investment staff.
 - F. Review Fund investment history, historical capital markets' performance and the contents of the Statement of Investment Policy with all Trustees, as necessary.
 - G. Provide continuing asset/liability allocation review and specific recommendations.
 - H. Communicate with all investment related professionals retained by the Fund as required or prudent. This shall include, but is not limited to, notifying investment managers of "watch list" status, changes to the investment guidelines, and requested appearances before the Investment Committee.
 - I. Attend the following meetings:
 - 1. Investment Committee meetings,
 - 2. Investment Manager Symposium,
 - 3. presentations by current or prospective investment managers,
 - 4. Investment staff planning sessions, as necessary, and
 - 5. other occasions, as necessary.
 - J. Other duties or services as can be reasonably requested of an Investment Consultant.
2. **Discretionary Investment Managers:** The Board at its discretion may contract with Investment Managers based on an evaluation of their investment philosophy, performance and ability to complement existing portfolio styles.

Each specific manager must manage Fund assets according to their stated investment discipline as stated in the guidelines and in accordance with their specific written agreement with the Board. No deviation from this discipline is authorized unless first discussed with the Board and its Investment Consultant, and written approval issued.

Investment Managers are granted discretionary authority to manage stated assets for the Board. This Statement of Investment Policy communicates policies regarding the current asset allocation strategies for the Fund and the duties and obligations of Investment Managers. Each Investment Manager will have full discretion, within the confines of its stated investment discipline, to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Statement, and in each manager's specific investment guidelines, including applicable addenda. Specific responsibilities of the Investment Managers include:

- A. Discretionary investment authority including decisions to buy, sell, or hold individual securities within the guidelines established in this Statement and applicable to the investment manager.

- B. The timely communication of any significant changes regarding economic outlook, investment strategy, or any other factors which may have an impact upon the achievement of the Fund's investment objectives.
 - C. Informing the Board regarding changes within the investment management organization within ten (10) business days of such change(s). Examples include but are not limited to: changes in portfolio management personnel, ownership structure, and/or investment philosophy.
 - D. Voting proxies - Each Investment Manager has discretion to vote all proxies for securities held for the Fund, so long as in the Manager's belief the result of the ballot would serve to increase the value of the investment or otherwise benefit the Fund. Allowable exceptions to this voting policy include proxy votes on issues the Trustees have reserved the right to review or any other issue as directed by the Trustees.
 - E. Timely Reporting of Investment Activities - Each Investment Manager shall provide reports to the Board as outlined in Section VIII.
3. **Custodian(s):** The Custodian(s) will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The Custodian(s) will perform regular accounting of all assets owned, purchased, or sold, as well as monitor the movement of assets into and out of the Fund accounts. The Custodian(s) may also perform additional contracted services including but not limited to securities lending, portfolio analysis, performance reporting and computer accessible reporting.
4. **Additional Professionals:** Additional professionals, including but not limited to attorneys, actuaries and auditors may be retained by the Board as necessary to assist toward the prudent administration of the Fund's assets.

INVESTMENT CONTRACTS

Contracts are an integral part of the selection of investment professionals and, therefore, guidelines apply to the selection of outside investment professionals.

With respect to all investment relationships, it is the responsibility of the Fund attorney and staff to review and document written agreements with all Investment Managers consistent with the requirements of Article 1 of the Code. The Fund utilizes a uniform Investment Management Agreement that all Investment Managers will be expected to execute and deliver as a condition precedent to funding. Staff will assist in the review of all contracts and negotiate fees on all investment advisor relationships, subject in most cases to the results of the competitive selection process.

Investment Managers shall affirm within their investment contract that they are fiduciaries with respect to the Fund. Investment Managers shall also acknowledge and comply with the Fund's Code of Ethics and brokerage policy.

The Investment Consultant(s) contract shall limit compensation to hard dollars (cash) for all services rendered. No other form of compensation, including any type of soft dollar arrangements shall be

permitted. The Investment Consultant(s) shall affirm that they act as a fiduciary of the Fund with respect to the investment advice given and also acknowledge and comply with the Fund's Code of Ethics.

The Board and staff shall review all investment relationships on a regular basis. The Investment Consultant(s) shall be reviewed and a request for proposals ("RFPs") issued in accordance with the Fund's procurement policy will be conducted at least every five years. A review may be conducted sooner if deemed necessary. Renewal of the Investment Consulting contract without a formal RFP and search process is prohibited.

**- SECTION II - INVESTMENT GOALS
AND OBJECTIVES**

The purpose of the Fund establishing an investment policy is to obtain the highest return possible on Fund investments within corresponding acceptable levels of investment risk and liquidity requirements, in recognition of prudent person standards and in compliance with the Illinois Statutes governing the operation and activities of the Fund.

**FUNDING LEVELS, LIQUIDITY REQUIREMENTS AND
ASSET ALLOCATION CONSIDERATIONS**

Due to the actuarial underfunding of Fund liabilities, the investment strategy of the Fund must emphasize the greater need for longer term growth of capital while fulfilling the immediate liquidity requirements of the Fund's benefit payout.

To maximize the potential gain on assets, the Fund has decided to maintain a fully invested position in accordance with the established target asset allocation. The Fund believes that liquidity requirements may be met by active investment managers while minimizing the possibility of capital losses due to the forced sale of a security to meet a required payment by following an appropriate monthly rebalancing procedure.

TARGET ALLOCATIONS

The Board has determined that the following asset allocation policy is currently appropriate for the Fund. This asset allocation policy will be reviewed periodically and may be modified, if appropriate, in light of changes in the structure or goals of the Fund. The Board will review asset allocation strategy upon any meaningful change in projected contributions into the Fund. The following asset allocations are meant to apply to the actual realized asset class allocations as opposed to the allocations among manager types.

The Fund's asset allocation shall be reviewed in no longer than five year intervals. Asset allocation may be reviewed more frequently, or deferred, as determined by a majority vote of the Board. Changes to the asset allocation policy, whether temporary or permanent, require a majority vote of those Board members present at a Board meeting consistent with the requirements of the Open Meetings Act.

An asset liability modeling (ALM) study shall be completed in no longer than five-year intervals. An ALM may be conducted more frequently, or deferred, as determined by a majority vote of the Board.

<u>Equity</u>	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Broad US Equity	35%	31%	39%
<i>Large Cap US Equity</i>	21%	17%	25%
<i>Small/Mid Cap US Equity</i>	14%	10%	18%
Global Ex-US Equity	25%	21%	29%
<i>International Equity</i>	20%	16%	24%
<i>Emerging Markets Equity</i>	5%	1%	9%
Private Equity	4%	0%	8%
Total Equities	64%	60%	68%
<u>Real Assets</u>			
Commodities	2%	0%	6%
TIPS	2%	0%	6%
Core Real Estate	4%	0%	8%
Global REITs	4%	0%	8%
Total Real Assets	12%	8%	16%
<u>Fixed Income</u>			
Core Fixed Income	20%	16%	24%
Total Fixed Income	20%	16%	29%
Liquid Diversifying Assets	4%	0%	8%
Cash	0%	0%	5%
Total	100%		

The table that follows illustrates the current benchmarks to be used for each asset class. These benchmarks will be used to evaluate the performance of individual asset classes, and will also be combined based on the target weights, to arrive at a Performance Benchmark, or Policy Target.

<u>Equity</u>	<u>Performance Benchmark</u>
Broad US Equity	Russell 3000 Index
<i>Large Cap US Equity</i>	<i>Russell 1000 Index</i>
<i>Small/Mid Cap US Equity</i>	<i>Russell 2500 Index</i>
Global Ex-US Equity	MSCI All Country World Ex-US Index IMI (net)
<i>International Equity</i>	<i>MSCI EAFE Index(net)</i>
<i>Emerging Markets Equity</i>	<i>MSCI Emerging Markets Index (net)</i>
Private Equity	Cambridge US Private Equity Index (legacy)

<u>Real Assets</u>	
Commodities	100% Bloomberg Commodity Index
TIPS	Bloomberg Barclays US TIPS Index
Core Real Estate	NCREIF ODCE Index (Gross)
Global REITs	FTSE EPRA NAREIT Developed Real Estate Index (Net Div)

<u>Fixed Income</u>	
Core Fixed Income	Bloomberg Barclays Aggregate Bond Index
Liquid Diversifying	90 Day T-Bills + 4%
Cash	90 Day T-Bills

Total **Weighted Average of Asset Class Benchmarks**

REBALANCING PROCEDURES

In order to maintain the established target asset allocation, the Fund has determined that a specific rebalancing procedure is necessary. The Fund has also determined that this procedure should coincide with the liquidity requirements of the Fund so as to limit the amount of required liquidations and associated transaction costs. As the Fund benefit payouts are known with a high level of confidence at least two months in advance, the procedure can be determined fairly accurately. This will allow the Investment Managers to receive ample notice about required liquidations. This process should avoid forcing quick sales or high transaction costs.

The Chief Investment Officer (CIO), or other Fund staff, shall estimate expected cash receipts and disbursements, including current and following month-end benefit payments, to determine the amount of any required liquidation. The CIO shall then analyze the asset allocation, generally seeking to reduce the allocation of the largest or most overweight managers on an absolute basis, present the findings to the Board for approval, and then facilitate the liquidation from as few or as many Investment Managers as necessary in order to fund the benefit payments and Fund expenses. By continually liquidating assets from the most overweight Investment Managers, the Fund will work its way toward the desired target asset allocation, ensuring that it remains at or near the desired target levels.

SECURITIES LENDING

Overview

The Board intends to maintain a securities lending program, as the Board believes it provides a means of enhancing the overall Fund performance. The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification of the cash collateral portfolio and tightly controls exposure to fluctuating interest rates. The Board will evaluate the income attributable to the program and the risks inherent in the program. The Board expects the investment staff to offer suggestions with respect to any possible improvements in the program, and to monitor the results of the program (e.g., income, costs associated with the program, issues that arise with respect to the program).

The specifics pertaining to any securities lending program shall be detailed in a separate Securities Lending Agreement.

Risk Control

The Custodian and/or securities lending sub-agent is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The name of borrowers and potential borrowers shall be updated and provided to the Board promptly following the end of each calendar quarter

The Custodian and/or securities lending sub-agent is responsible for ensuring that all loans are at least 100% collateralized. Specific requirements for the amount of collateral required for loans on each type of security, as well as the quality and guidelines for investment of such collateral shall be defined in the Securities Lending Agreement.

Securities shall not be loaned in excess of forty percent (40%) of the market value of Fund's assets (not be taken on an individual manager account-by-account basis) under the care of the Custodian, marked to market on a day-to-day but not on an intra-day basis.

Cash collateral shall be invested by the Custodian, and/or its security lending sub-agent pursuant to the Securities Lending Agreement.

The Fund shall direct the Investment Manager of the securities to notify the Custodian of any sales by no later than the trade date to permit the Custodian to effect timely return of loaned securities prior to or on the settlement date.

The Custodian, upon notification of default by a borrower, which shall be reported immediately to the Board in writing, the Custodian shall take such actions as are prudent, necessary and appropriate to use the collateral to acquire replacement securities of the exact same type and kind as the securities which were loaned to the borrower. Any inability to acquire such securities shall be reported to the Fund and to the Investment Manager immediately.

Monitoring

The Custodian and/or securities lending sub-agent is responsible for reporting fully on all aspects of the Securities Lending Program, including its operation and returns. The Custodian and/or securities

lending sub-agent shall cooperate fully with all reasonable requests for documents and records made by the Board and/or an independent certified public accountant selected and retained by the Board to audit securities lending activities.

The Fund shall receive a monthly report of the securities on loan, the income received from loans, the Custodian's and sub-agent fees from loans, the composition of collateral, and the investment characteristics of the collateral. In addition to the monthly report, significant events which require additional reporting shall include but not be limited to borrower list changes, failed trades due to securities on loan, and collateral shortfalls.

- SECTION III -
GUIDELINES FOR ACTIVELY MANAGED FUND ASSETS

Each Investment Manager within the Fund will be chosen for a specific discipline and will be required to adhere to these general investment guidelines:

1. **Risk Aversion:** Investment Managers are to make reasonable efforts to control risk and will be evaluated regularly to ensure that the return of the portfolio under management is commensurate with the level of risk that is assumed within any given discipline.
2. **Fully invested:** The Board has adopted a long term Asset Allocation Policy and grants Investment Managers discretion over assets within the portfolios they manage. The Board has set specific guidelines concerning the allowable levels of cash that may be maintained in each actively managed portfolio. The Board will closely monitor the use of cash by any manager. If a manager believes that a change in its specific guideline is in the interest of the Fund, the manager should bring this recommendation, in writing, immediately to the attention of the Board. Under conditions of extreme market duress and upon a majority vote of the Board, cash level guidelines may be altered, as is prudent, for defensive purposes.
3. **Portfolio Diversification:** In order to achieve a prudent level of portfolio diversification, the manager's investment guidelines will articulate any constraints regarding concentration of positions by sector and limits that must be adhered to in attempting to exceed the returns of the performance benchmark.
4. **Investment Discipline Objectives:** Each separately managed portfolio will have specific guidelines and objectives established by the Board. Investment Managers are expected to adhere to the investment discipline for which they were hired. Managers will be evaluated for adherence to their stated investment discipline.

Specific investment goals and constraints for each Investment Manager shall be established in the investment contract documentation between the Fund and the Investment Manager.

The goal of each Investment Manager, over the investment horizon, shall be to:

- A. Exceed the market index, or blended market index, selected and agreed upon by the Board and Investment Manager that most closely corresponds to its style of investment management.
- B. Unless otherwise agreed to by the Board and Investment Manager, display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified. Typically, risk will be primarily measured by the standard deviation of returns, secondarily by tracking error.

The Investment Managers are charged with the responsibility of maintaining their portfolios in compliance with the investment guidelines. Under no circumstances shall an Investment Manager take an action which causes the portfolio to be in conflict with the guidelines without prior written consent of the Board. If there is a deviation from the guidelines because of an Investment Manager's action, the manager will be reviewed by the Board at the next meeting following notification of the deviation. If there is a deviation from the guidelines because of a change in the market value of an Investment Manager's portfolio or a particular holding, or a change in quality rating of a particular holding, the Investment Manager shall take action that is prudent and appropriate to the intended purpose of the portfolio. If for any reason a portfolio deviates from the guidelines, the Investment Manager is responsible for reporting the deviation from the guidelines to the Board and its Investment Consultant in writing within 30 days of when the manager should have known the deviation occurred. The Investment Manager is required to give this notice even if they have taken immediate action to correct the deviation. The Investment Manager will explain the deviation from the guidelines and suggest appropriate action. Within 60 days after receiving notification of a deviation from the investment policy guidelines, the Board will respond to the manager's recommendation and will direct appropriate action. Depending upon the severity of the circumstances, the consequences of deviating from the investment policy guidelines could range from an Investment Manager appearing before the Board up to and including the manager's termination.

- 5. **Brokerage and Execution of Transactions:** Investment Managers with authority over Fund assets must use sound professional judgment in conducting each transaction to obtain the best possible unit price and terms of execution, in accordance with Section 1-113.20 of the Code.

Additionally, as outlined in *SECTION IV – MINORITY, WOMEN AND DISABLED PERSONS BROKERAGE*, it is the policy of the Fund to utilize Minority, Women and Disabled Persons owned brokerage services, as defined in the Illinois Business Enterprise for Minorities, Women and Persons with Disabilities Act, whenever possible.

- 6. **Minority, Women and Disabled Persons Business Enterprise Investment Manager Utilization Policy** In accordance with 40 ILCS 5/1-109(10), the Board supports the aspirational goal that not less than 20% of investment advisors be minorities, women, and persons with disabilities.

- I. Emerging Managers

In accordance with 40 ILCS 5/1-109.1(4), the Board has set forth the following quantifiable goals for percentage of total assets under management managed by emerging investment managers:

	<u>Goal Range</u>
Total investment assets	7% to 10%
A.) <u>By asset class</u>	
Equity	3% to 10%
Fixed Income	2% to 10%
Real Assets	2% to 10%

B.) By ownership classification

Minority	7% to 10%
Women	3% to 7%
Disabled Persons	0% to 2%

II. Minority Managers

In accordance with 40 ILCS 5/1-109.1(9), the Board has set forth the following quantifiable goals for percentage of total assets under management managed by minority investment managers:

Goal Range

Total investment assets	12% to 24%
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A.) By ownership classification

Minority	8% to 12%
Women	4% to 8%
Disabled Persons	0% to 4%

These goals shall be reviewed annually.

Consistent with the requirements of Section 1-113.22 of the Code, no later than each January 1st, the Fund's Consultant(s) shall disclose to the Board: (i) the total number of searches for investment services made by the Consultant in the prior calendar year; (ii) the total number of searches for investment services made by the Consultant in the prior calendar year that included: (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability; (iii) the total number of searches for investment services made by the Consultant in the prior calendar year in which the Consultant recommended for selection (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability; (iv) the total number of searches for investment services made by the Consultant in the prior calendar year that resulted in the selection of (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability; and (v) the total dollar amount of investment made in the previous calendar year with (a) a minority-owned business, (b) a women-owned business, or (c) a business owned by a person with a disability that was selected after a search for investment services performed by the Consultant.

- Sustainable Investing Principles** In accordance with 40 ILCS 5/1-113.6 and 40 ILCS 5/1-113.17, the Board will regularly consider material, relevant, and decision-useful sustainability factors, within the bounds of financial and fiduciary prudence, in evaluating investment decisions. Such factors include, but are not limited to: (1) corporate governance and leadership factors; (2) environmental factors; (3) social capital factors; (4) human capital factors; and (5) business model and innovation factors. The Fund, in conjunction with its Consultant, will perform periodic evaluations of those factors to ensure the factors are relevant to the investment portfolio and the evolving marketplace.

- SECTION IV -
MINORITY, WOMEN AND DISABLED PERSONS BROKERAGE

The Board has determined that consistent with the public policy of the State of Illinois, it is the policy objective of the Fund to increase brokerage services provided to the Fund by minority, female and disabled person business enterprises as defined by the Illinois Business Enterprise for Minorities, Females, and Persons with Disabilities Act Women.

Minority, women and disabled person-owned business enterprises ("MWDBE") are defined as a sole proprietorship, partnership, or corporation owned, operated, and controlled by minority, women and disabled group members who have at least 51% ownership as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act. The defined group member(s) must have day to day operational and managerial control, and an interest in capital and earnings commensurate with his or her percentage of ownership. In addition, the brokerage firm and its operating members must be registered with the appropriate federal and state agencies and must have an established record of business performance through a history of having provided good execution and reporting services.

Subject to the Fund's policy that Investment Managers with authority over Fund assets must use sound professional judgment in conducting each transaction to obtain the best possible unit price and terms of execution in respect to placing brokerage consistent with Section 1-113.20 of the Code, the Investment Managers will be expected to use their best efforts to place brokerage business with minority, women and disabled person business enterprise firms as defined.

Each Investment Manager shall submit a quarterly report detailing the use of minority, women and disabled person business enterprise firms and the year to date amounts and type of brokerage placed with each firm.

Each Investment Manager that fails to submit a quarterly report or fails to use its best efforts (as determined by the Trustees) to assist the Fund in fulfilling the above stated policy will be scheduled to appear before the Trustees to explain its actions.

It is the goal of the Fund to have at least 12% of its fixed income transactional amounts and at least 22% of its equity related commissions be placed with MWDBE broker/dealers. Program success will be measured in aggregate.

Managers shall not utilize indirect methods, such as "step-out" commissions, to achieve these goals.

When purchasing new issue securities, the manager will make every effort to utilize minority broker-dealers who are part of the underwriting syndicate sell the new issues.

- SECTION V -
SELECTION AND REVIEW OF INVESTMENT MANAGERS

The Board of Trustees' selection of Investment Manager(s) must be based on prudent due diligence procedures. All manager selections must be conducted using a formal search process where qualifying candidates are reviewed on a consistent basis. At the discretion of the Board, a follow-on or legacy investment(s) through closed-end funds may be excluded from a formal search process consistent with the requirements of Section 1-113.14 of the Code. The Board will consider a broad range of candidates and actively consider minority, women and disabled person-owned business enterprises (MWDDBE) that also have the required capabilities.

A qualifying Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940 or exempt from registration as demonstrated to the satisfaction of the Board, or a bank or insurance company similarly registered or exempt. The Board requires that each Investment Manager provide, in writing within the Investment Management Agreement, acknowledgment of fiduciary responsibility to the Fund as specified in the Illinois State Statutes.

During the search process candidates are not permitted to contact Board members. Any contact between Board members and candidates prior to the finals presentation may result in disqualification.

INVESTMENT MANAGER SELECTION

The manager search process combines both quantitative and qualitative components in an effort to identify suitable candidates. Such quantitative and qualitative components will also include a review of the candidates' inclusion of sustainability factors in its investment decision-making process. The Investment Consultant and Fund investment staff will lead Investment Manager searches with the coordination of staff. A formal Request for Proposal will be initiated and all procedures outlined in the Fund's Procurement Policy will be employed. The final selection of an Investment Manager will be approved by a majority of the Board.

Depending upon the mandate of each Investment Manager search, minimum screening criteria will be prepared, in writing, by the Investment Consultant and Fund investment staff in advance of each search. Criteria shall include, but is not limited to:

- Personnel qualifications of the firm's ownership, investment professionals and support staff, including but not limited to education, investment experience, tenure, etc;
- Total assets under management of the firm and within the mandate sought;
- Suitable number of years as a going concern;
- A verifiable track record that demonstrates consistent adherence to the stated investment approach;
- Risk and return characteristics of historical data that are consistent with the specified role;
- No legal or regulatory judgments/actions pending or outstanding, and;
- Any other material issue negatively impacting the Fund.

The inclusion of investment management firms in any search which do not meet the minimum determined screening criteria must be fully documented and disclosed, in writing, to all Trustees.

Consistent with the requirements of Section 1-113.23 of the Code, the Investment Consultant shall disclose to the Board any compensation or economic opportunity received in the last 24 months from an Investment Manager that is recommended for selection by the Investment Consultant. The _____

Investment Consultant shall make this disclosure prior to the Board selecting an Investment Manager for appointment.

PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant(s) (quarterly) and Custodian(s) (monthly) shall be compiled and communicated to the Board for review. The investment return of the total portfolio, as well as asset class components, will be measured against performance benchmarks, appropriate for each portfolio, as adopted by the Board. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this Statement.

Investment Managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, compliance with the Fund directives regarding utilization of minority, women and disabled-owned broker dealers and other factors that may impact their ability to achieve the desired investment results.

Though the Board reserves the right to terminate a manager at their discretion, “watch list” guidelines have been established to facilitate the review process.

A manager may be placed on a “watch list” and a thorough review and analysis of the manager may be conducted under the following circumstances:

- The manager or strategy may no longer fit the desired portfolio structure. This may reflect a revision of the desired portfolio structure due to other factors such as changes in asset allocation and/or risk profile.
- The manager fails to achieve the performance objectives established within the Investment Policy such as underperformance relative to a designated index benchmark or median of the peer universe.
- The manager or strategy deviates from the universe and benchmark dramatically and in a manner that would not have been expected given the tracking error expectations of the strategy.
- The manager or strategy exhibits style drift or a change in philosophy, which the manager was not initially hired to provide.
- Any gross negligence, willful misconduct, malfeasance, investment policy violation or breach of federal and/or state securities laws.
- Failure to comply with Board policies or this Statement of Investment Policy.
- Any other reason including but not limited to items such as ownership, organizational or portfolio management changes, legal or regulatory actions initiated against the manager or any other material issue negatively impacting the Fund.

Ultimately the decision to retain or terminate an Investment Manager cannot be made by rigid rules or formula. It is the Board's confidence in the manager's ability to add value to the Fund that ultimately determines the retention of the manager. The Board may find it necessary to terminate an Investment Manager at any point, based upon, but not limited to the following criteria:

1. Inability to exceed the stated performance objectives.
2. Inability to adhere to all applicable Board Policies, Investment Policies and Investment Manager Guidelines.
3. Material changes in the investment manager's organization, investment philosophy and/or personnel.
4. Any legal, SEC and/or regulatory agency proceedings affecting the investment manager.
5. To meet liquidity needs.
6. De minimus account size.
7. To implement change in total fund or asset class investment strategy or allocation among asset classes

*- SECTION VI -
DEFINITIONS AND CONCLUSION*

1. **"The Fund"** shall mean The Firemen's Annuity and Benefit Fund of Chicago.
2. **"Retirement Board"** or **"Board"** shall refer to the governing Board of Trustees established to administer the Fund as specified by applicable ordinance.
3. **"Fiduciary"** shall mean any entity or person who exercises any discretionary authority or discretionary control respecting management of the Fund or exercises any authority or control respecting management or disposition of the Fund's assets, or renders investment advice for a fee or other compensation, direct or indirect, with respect to monies or property of the Fund, or has any discretionary authority or responsibility in the administration of the Fund.
4. **"Investment Consultant"** shall mean any entity or person employed to provide advisory services, including advice on investment objective and/or asset allocation, manager search, and performance monitoring.
5. **"Investment Manager"** shall mean any individual, or group of individuals, employed to manage the investment of Fund assets.
6. **"Broker/Dealer"** shall mean any entity or person in the business of effecting securities transactions for its own account and/or of others and registered as such with the Securities and Exchange Commission and a member of the National Association of Securities Dealers, Inc.
7. **"Investment Horizon"** shall be the time period over which the investment objectives, as set forth in this Statement, are expected to be met. The investment horizon for this fund is an 80 year spectrum segmenting risk tolerance to the present value of the Fund liabilities as follows: Conservative - current to 3 years, moderate - 4 to 15 years, and aggressive - 16 to 80 years.
8. **"Market Cycle"** shall be a time period which includes a significant market decline from peak to trough and a sustained market increase significantly above the previous peak. Observing performance over a market cycle allows the Board to analyze the results without biasing the results in favor of managers that might outperform during certain sub-periods. If a market cycle should take place within a short time period, additional time may still be needed to assess the value added of the manager.
9. **"Emerging Investment Manager"** shall mean a qualified investment adviser that manages an investment portfolio of at least \$10,000,000 but less than \$10,000,000,000 and is a "minority-owned business", "women-owned business" or "persons with a disability owned business" as those terms are defined in the Illinois Business Enterprise for Minorities, Women and Persons with Disabilities Act.
10. **"Minority Investment Manager"** means a qualified investment manager that manages an investment portfolio and meets the definition of "minority owned business", "women owned business", or "business owned by a person with a disability", as those terms are defined in the Business Enterprise for Minorities, Women, and Persons with Disability Act.

CONCLUSION

This Statement of Investment Policy is a working document structured to accomplish long-term and short-term planning. Investment Managers and other fiduciaries are invited to contact the Fund or the Investment Consultant(s) with any questions about the interpretation or application of any provisions. This Statement of Investment Policy will be reviewed as needed. All changes will be communicated to all appropriate parties in writing.

Please address reports, correspondence and communications to:

THE FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
Attention, Chief Investment Officer
20 South Clark Street – Suite 300
Chicago, Illinois 60603-1899
(312) 726-5823

- SECTION VII -
SPECIFIC OBJECTIVES AND GUIDELINES FOR INDIVIDUALLY MANAGED PORTFOLIOS

INVESTMENT OBJECTIVES AND GUIDELINES

The Board expects to receive results from the Investment Managers that are consistent with the policies included herein. The Board has established investment guidelines specific to each investment manager retained by the Fund. These objectives and guidelines will provide a basis for evaluating the effectiveness of each Investment Manager and the overall investment program over time. In addition to each managers' specific guidelines, the following broad restrictions apply to all investment managers employed on behalf of the Fund.

BOARD RESTRICTIONS

- No assets, with the exception of approved alternative investments, shall be invested in restricted (lettered) stock or in private placements. This restriction is not meant to preclude purchases of securities issued under SEC Rule 144a. Rule 144a allows trading among qualified institutional investors within a segment of the private placement market.
- No assets will be invested with firms that make, service or invest in loans as defined by the Illinois High Risk Home Loan Act.
- Derivatives will be utilized in a prudent manner that is consistent with the investment mandate for which an Investment Manager has been employed.
- During such time as an investment in a commingled fund shall exist, the Declaration of Trust or other document creating said commingled fund shall control, subject to a negotiated side-letter or other contractual documentation between the parties that incorporates the requirements specified in the Illinois Pension Code and the limitations set forth within the Investment Guidelines do not apply.

TOTAL FUND - OBJECTIVES AND GUIDELINES

Investment Objectives

The primary investment objective of the Fund shall be to exceed the return of the performance benchmark, on a net of fee basis, over a full market cycle. The Performance Benchmark, or Policy Target, shall be a weighted average of each asset class benchmark, weighted by the target allocation to each asset class over time.

A secondary measure of investment success shall be a review of returns relative to a universe of peer public pension plans. Over the long term, the Fund objective is to rank within the top 33% if a universe of peers. During intermediate or shorter term periods, the Fund seeks to rank in the top 50% of the same universe.

Investment Guidelines

- The investment guidelines governing each asset class/manager will together constitute the Total Fund guidelines.
- The Board is responsible for the overall asset allocation of the Fund. Each manager will be responsible for adhering to the guidelines for its portion of Fund assets.

- SECTION VIII -***REQUIRED REPORTING OF ACTIVELY MANAGED INVESTMENT PORTFOLIOS***

The Board has determined that each Investment Manager given discretionary authority over a portion of the Fund's assets shall provide the following required reports to the Fund at the time periods indicated.

Five (5) copies of these reports shall be compiled and distributed electronically in PDF format as follows:

- | | |
|----------------------------------|------------------|
| 1. Investment Committee Chairman | ICM@fabf.org |
| 2. Chief Investment Officer | CIO@fabf.org |
| 3. Executive Director | EXECDIR@fabf.org |
| 4. Comptroller | COMP@fabf.org |
| 5. Callan Associates | CALLAN@fabf.org |

ON A MONTHLY BASIS, provided no later than seven (7) business days after month end:

1. A RECONCILIATION: Between the managers records and those provided by the Fund's Custodian, outlining any differences in transactions, asset holdings, and market values.
2. DERIVATIVES REPORT: A statement of derivatives used, detailing notational value and explanation of purpose of the derivative.
3. A STATEMENT OF INVESTMENT PERFORMANCE: Expressed in percentage increase/decrease for the following periods: Month, Year To Date, One Year, Three Years, Five Years, and Since Inception. Comparative statistics for the specific Benchmarks should also be included.

ON A QUARTERLY BASIS, provided no later than ten (10) business days after quarter end:

In addition to the above reports, the following will be completed:

1. A LETTER OF TRANSMITTAL: Addressed to the President of the Fund which includes a narrative about the account performance and all related factors for the quarter, including market outlook and short- and long-term expectations for the account.
2. PERFORMANCE ATTRIBUTION explaining how performance was achieved and explanations of any variance from the benchmark performance for quarter, year-to-date, 1 year ("yr"), and 3 yr periods
3. MINORITY BROKERAGE TEMPLATE in format specified by the Fund
4. COMMISSION DETAILS (e.g., soft dollar, CSA, etc), including brokers, dollar amounts and detail listings of services/products received with commission dollars beyond execution
5. STOCK information regarding new additions or complete eliminations, including rationale behind

the addition (s) or elimination (s)

6. TRANSACTION COST ANALYSIS: Manager's transaction cost analysis, including a copy of any report or service a manager utilizes to measure the quality of its trade execution.
7. A RECORD OF PROXY VOTING: A statement of all proxies voted shall be prepared each quarter.
8. FINANCIAL CHARACTERISTICS of account vs. specific benchmark.
9. NOTIFICATION OF GUIDELINE VIOLATIONS, listed for the quarter along with the related remedy.
10. SUMMARY of ORGANIZATIONAL UPDATES (e.g. changes in personnel, management, ownership, etc)

ON AN ANNUAL BASIS, provided no later than thirty (30) days after calendar year end:

In addition to the above reports, the following will be completed:

1. ORGANIZATIONAL CHART of the account's asset management group
2. BROKERAGE CERTIFICATION: A statement certifying manager's compliance with Section 1-113.2 of the Code and the Fund's minority, women, and disabled persons brokerage goals.
3. YEAR-END GIPS composite(s) of strategy pertaining to account.
4. TOTAL CLIENTS GAINED AND LOST, as well as the assets gained and lost, for the product pertaining to the account for prior calendar year.
5. DISCLOSURE OF CHANGES, if any, to the investment philosophy and investment process (including operations) for the product pertaining to the account.
6. DISCLOSURE OF MANAGERS' E&O and D&O insurance coverage and period of coverage.
7. ETHICS POLICY CERTIFICATION: A statement certifying manager's compliance with the Fund's Ethics Policy.
8. INVESTMENT POLICY STATEMENT CERTIFICATION: A statement certifying manager's compliance with the Fund's Investment Policy Statement.
9. DISCLOSURE OF ROLE OF SUSTAINABILITY FACTORS: A report discussing manager's incorporation of sustainability factors in investment process, citing specific examples.
10. DIVERSITY CHART AND STATEMENT: Completion of diversity chart in format specified by Fund, including statement on efforts being made to increase diversity within firm.

11. Additional reasonable information as requested by the Board or Investment Staff.

ON AN ANNUAL BASIS, provided no later than thirty (30) days after June 30th:

1. INVESTMENT HEADQUARTERS: On an annual basis, as of June 30, investment managers will provide to the Fund a list indicating the Fund's holdings in publicly traded equity and fixed income securities and private equity investments headquartered in Illinois