City of Lincoln
Police and Fire Pension
Statement of Investment Policy

I. Purpose

The City of Lincoln Police and Fire Pension Plan (the Plan) is a defined benefit pension plan providing retirement, disability and survivor benefits to Police Officers, Fire Fighters and their beneficiaries. The system operates under the rules of Internal Revenue Code section 401(a). Plan benefits are paid by the City from the Police and Fire Pension Fund (the Fund). The Investment Board (the Board) has been established by the City Council under Lincoln Municipal Code chapter 4.62 to direct and oversee the Fund's investments for the sole benefit of plan participants and beneficiaries. The purpose of this Statement of Investment Policy (the Policy) is to set forth objectives and parameters to ensure all parties act with prudence and care regarding the Fund's investments while making operating capital available and to achieve an investment return competitive with comparable funds and financial indices. The Investment Policy contains the following sections:

II. Delegation of Authority and Responsibilities

III. Objectives

IV. Standards of Prudence

V. Ethics and Conflicts of Interest

VI. Investment Parameters and Methodology

VII. Investment Selection and Evaluation Process

VIII. Asset Allocation Process

Appendix A (approved asset classes with minimum and maximum allocations)

Definitions and Key Terminology

II. Delegation of Authority and Responsibilities

In accordance with Lincoln Municipal Code the Board shall provide oversight and direction to the Plan Administrator with regard to the investment of the Fund. The daily management responsibility of the Fund and routine investment transactions are delegated to the Plan Administrator.

The Board will meet quarterly, or as it deems necessary, to formulate policies, strategies, review and determine asset class allocation, select appropriate investments and delegate investment of assets to investment managers. The Board also will monitor plan assets, review transactions, cash flow needs and direct changes as needed.

The Plan Administrator will implement the Board's investment decisions. The Plan Administrator will have the ability to buy and sell investments previously approved by the Board, within the framework of this policy, to provide cash for benefit payments, and handle the execution of internally managed investments.

The Board will establish the overall asset allocation for the Fund. The Plan Administrator, after consultation with the Board, may retain the services of a qualified independent investment consultant (LMC 4.62.025(h)). The Board may seek the advice of the investment consultant to assist with this function. The investment consultant, if utilized, will provide the Board with an optimized asset allocation recommendation which provides the greatest likelihood of meeting or exceeding the long-term target rate of return established by the Plan Administrator and stated in Appendix A. The investment consultant will assist in selecting expected return parameters for each asset class and will recommend best fit benchmarks (either standard or custom) for each asset class. The investment consultant will assist in the selection, monitoring and evaluation of each outside investment manager, if directed to do so by the Board. The investment consultant shall be empowered by the Board to represent the Board when dealing with outside investment managers on the Board's behalf.

Outside investment managers will be required to invest Fund assets entrusted to them in the manner prescribed by the applicable prospectus in the case of mutual funds, by the offering memorandum corresponding to the investment in the case of limited partnerships, or by an appropriate written document in the case of other investments.

III. Objectives

The Board's objective is to oversee the Fund in a manner consistent with Lincoln Municipal Code. The Board members shall act with the care, skill prudence and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. Specifically:

A. Optimize the Fund's investment portfolio by selecting an asset allocation with a long-term perspective that will diversify the Fund over multiple asset classes (shown in Appendix A) with distinctly different risk and return characteristics in weightings designed to minimize risk for the long-term target rate of return established by the Plan Administrator.

B. Select appropriate investments, or investment manager(s), to fill each asset class allocation. The individual investments, or investment managers, chosen shall be those determined to meet the Board's objectives in terms of their overall combination of risk, return and liquidity.

C. To timely monitor and when necessary adjust the asset allocation, investments, and/or investment managers. The Board shall monitor characteristics of the Fund's investments, including, but not limited to, the risk and return characteristics of the Fund as a whole, each separate asset class, and specific securities. Risk and return characteristics derived from the actual performance of the Fund, separate asset classes and specific securities shall be compared to appropriate benchmarks, financial indices and/or funds at least annually.

D. Ensure sufficient cash is available to meet the Plan's payment obligations by structuring the Fund to provide income and/or liquid assets to supplement employer tax revenues and employee contributions.

E. Provide the Plan Administrator flexibility to execute this Investment Policy.

F. Seek to minimize the total cost of factors related to the management of the Fund's investments.

IV. Standards of Prudence

The standard of prudence to be used by Board members and Plan Administration, shall be the "Prudent Investor Rule" as stated in Lincoln Municipal Code section 4.62.015(f), and shall be applied in the context of managing the overall investment program. Board members acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

> Lincoln Municipal Code section 4.62.015(f) provides:
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> To discharge their duties with respect to the investment of the funds of the Police and Fire Pension Plan solely in the interests of the plan members and their beneficiaries for the exclusive purposes of providing benefits to members and their beneficiaries and deferring reasonable expenses incurred within the limitations and according to the powers, duties, and purposes prescribed by law. The board members shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Any outside professional or outside firm hired or retained to invest, monitor, or advise concerning Fund assets shall be held to the higher standard of the "Prudent Expert Rule." The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing and disposing of investment of these funds, the contractor shall exercise the judgment, prudence and diligence under the circumstances then prevailing, which experts of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

V. Ethics and Conflicts of Interest

Board members shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, Board members shall disclose to the Board any material financial interests in financial institutions that conduct business with the Board and they shall further disclose any material personal financial/investment positions that could be related to the performance of the Fund's investment program.

These standards will be deemed to apply to any entity the Board extends its authority.

VI. Investment Parameters and Methodology

The Board may direct the use of both passive and active techniques in the management of the Fund's investments. With the help of an investment consultant, the Board will use software tools to seek no uncompensated risk is incurred.

A. Cash and equivalents and the passively managed portions of the fund may be managed internally by the Plan Administrator. Cash and equivalents held by the City Treasurer are governed by the Investment Policy of the City Treasurer.

B. Investments in the Fund are limited to the asset classes listed in Appendix A.

C. Diversification – with guidance from the investment consultant, the Board will seek optimum diversification among and within asset classes.

D. Concentration – It is the desire of the Board that no more than 5% of assets may be from a single corporate or sovereign issuer exclusive of the U.S. government. The Board will review assets to monitor the concentration of overlapping securities held by multiple mutual funds.

E. Restrictions.

   1. Real Estate: Real Estate investments may only be in domestic properties and must take the form of a direct investment in a Limited Partnership, Private Investment Partnership, a public or private REIT, or a Private Placement Agreement.

   2. Non-traditional, or Alternative Investment strategies may be utilized. These will either be in hedge funds or strategies that do not fall into a consistent investment style. Hedge funds or a Fund of Hedge Funds seek to achieve returns not available in traditional public markets with unique strategy or a highly specialized objective. These would include venture capital, market neutral, relative value, opportunistic, leveraged, long/short, arbitraged, etc. The objective of these investments shall be to reduce overall portfolio volatility, increase returns and prevent loss of principal. With proper documentation, a custom benchmark specific to each strategy will be designed.

   3. All derivatives, short sales and leverage transactions are restricted unless approved by the Board for specific investments or managers. Approval is automatically understood if the manager is approved and the investment process utilized describes such strategies in the prospectus or offering document.

   4. When considering non-securities investments, the Board will exercise all due diligence in securing all material information which ordinarily would be readily in publicly traded securities. Appropriate attention will be paid to liquidity and the maximum “lock-up” period for such an investment. In all cases, the liability of the Plan must be limited to the amount invested, with the appropriate financial firewall clearly delineated. If the structure is LP or LLC, the interests of the General Partner must be aligned with that of the Fund.

      Incentive compensation based on the investment performance of a sub-account manager is permitted if the incentive formulation meets the criteria of being 1) Cumulative, 2) Symmetrical and 3) is only awarded for that portion of return which exceeds the risk-appropriate benchmark.

      Other considerations to be addressed for non-traditional alternative investments:

      - Screening, selection criteria and recommendations
      - Monitoring and evaluation
      - Reconciliations in accordance with GAAP
      - Reporting and transparency

F. The Board will review annually the asset classes, minimum and maximum allocations, and comparative benchmark for each asset class described in Appendix A.

G. Each asset class will be rebalanced to its target allocation quarterly. Rebalancing exceptions are allowed for those asset classes comprised of securities with liquidity constraints, such as Real Estate and Alternative Investments. In those cases rebalancing shall occur as soon as the liquidity restraints allow.

VII. Investment Selection and Evaluation Process

The Board will employ sufficient qualitative and quantitative measures to prudently evaluate potential investment options for each asset class to select those investment managers they believe have optimum potential long term return and risk characteristics. The Board may use an independent investment consultant to help with this work.

A. Investment Disciplines: Active investment managers should consistently invest in assets corresponding to their asset class and should demonstrate a reasonably consistent investment process.

B. Performance: Active investment managers are expected to outperform their designated benchmark over rolling three- to five-year periods. A three- to five-year period is used to allow investment managers the opportunity to meet their performance benchmarks, given shorter-term fluctuations due to style considerations. Investment managers who fail to meet the performance benchmarks over these time periods may be terminated. Underperformance for two consecutive years may be cause for a formal review of the investment management firm's organization, process and performance.

C. Manager Quality and Depth: Investment managers should have a history of reliability and a sound financial background. The manager should demonstrate quality and stability and apply a business approach that is consistent with the prudence expert rule. A change in one or more key personnel within an investment fund will require the fund to be monitored to assure it does not significantly change under the new management.

D. Fees: Investment managers’ expenses should be competitive when compared to similar offerings in the asset class peer group.

VIII. Asset Allocation Process

The Board has the responsibility to allocate the Plan assets in various investment strategies to reach the overall return and risk objectives of the Plan. The Board may seek the advice of a qualified investment consultant to assist with this task.

Annually the Board will review the Plan’s investments from an “asset allocation” perspective. The strategic allocation process must be based on such factors as historical absolute returns of the benchmarks, recent returns for the benchmarks, volatility of benchmark returns as measured by standard deviation, and the correlation of returns with other asset classes used in the portfolio.

The overall objective of the strategic allocation process is to seek the greatest likelihood of obtaining the long-term target rate of return established by the Plan Administrator with the least amount of risk.

The asset allocation should be broad in nature to minimize the risk from any one asset class. Appendix A contains the list of recognized asset classes that may be utilized by the Plan and the allocation ranges. Annually the approved target allocation percentage for each asset class will be established. The approved target allocation percentages will be used for rebalancing purposes.

Once the appropriate allocation has been determined, the Board, with guidance from the investment consultant, will select the investment or an outside investment manager for each asset class. If the Board determines that it will use an active manager for a particular asset class, it may blend multiple managers with differing investment tactics in order to reduce manager risk within the same asset class.

Appendix A

The Plan Administrator has set the target Annual Rate of Return for the Fund as 7.5%.

Allocation table

Asset Class	Min %	Max %	Target %	Benchmark
Global Equity	**45**	**60**	**55**	**MSCI All Country World Index**
Fixed Income	**10**	**25**	**15**	**Barclays Capital Aggregate Bond Index**
Real Estate	**15**	**25**	**20**	**NCREIF Property Index**
Hedge FoF	**0**	**10**	**5**	**HFR Hedge Fund of Funds Composite Index**
Private Equity	**0**	**10**	**5**	**Russell 3000 Index + 3%**

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Definitions and Key Terminology

Active Management - The process of managing a portfolio with the objective of outperforming the risk-appropriate benchmark by the use of selection and/or timing techniques.

Alternative Investment - A special sub-class of non-securities investments specific to a Fund of Hedge Funds in this investment policy. The objective of these investments shall be to reduce overall portfolio volatility, increase returns and prevent loss of principal.

Asset Class - A grouping of securities with distinctly different risk/return characteristics such that the benefits of diversification are gained when combined with other asset classes.

Benchmark - the standard for comparison between an investment and its objective (i.e. the benchmark.) An incentive bonus must be measured against the risk-appropriated benchmark and must only be awarded for the increment of return which exceeds that benchmark

Bond - A certificate of debt issued by a government or corporation guaranteeing payment of the original investment plus interest by a specified future date.

Cash and Equivalents - Short-term, high quality debt securities low in risk and highly marketable, such as commercial paper, certificates of deposit, money market funds and repurchase agreements.

Convertible Securities - A bond or preferred stock that can be converted into a predetermined amount of the company's equity at certain times during its life. Convertibles are sometimes called CVs. Convertible securities tend to offer a lower rate of return in exchange for the option to trade the security into common stock.

Corporate - An organized body, especially a business, that has been granted a state charter recognizing it as a separate legal entity having its own rights, privileges, and liabilities distinct from those of the individuals within the entity. A corporation can acquire assets, enter into contracts, sue or be sued, and pay taxes in its own name. Corporations issue shares of stock to individuals supplying ownership capital and issue bonds to individuals lending money to the business. The corporation is a desirable organization for a business entity for a variety of reasons including the increased capability such an entity has to raise capital. Most large firms, especially those engaged in manufacturing, are organized as corporations. All stocks sold in the primary market and traded in the secondary market are shares of corporate ownership.

Correlation - A statistical term which measures the linear relationship between two investments variables.

Covariance - The tendency for different returns to have similar outcomes (to covary). The magnitude of the covariance measures the strength of the common movement. The scale of covariance can be adjusted to measure the pure commonality of this movement (correlation) with its magnitude.

Cumulative - incentive compensation must be based on a cumulative running total of “out performance increment” and must have a “claw back” provision for returning monies to the fund to adjust for underperforming timeframes.

Debt Quality - Corporate debt may be graded by various rating services as to the quality of the finances of the issuer. This rating may serve as a gauge as to the likelihood of default. Lower quality will provide higher return but also higher risk.

Derivative - A financial instrument whose value, usefulness and marketability is derived from an underlying asset. They may be used to transfer risk from hedgers to speculators.

Diversification - The process of mixing assets with dissimilar characteristics in order to reduce overall price volatility.

Domestic - Indigenous to and/or domiciled in the United States of America

Duration - The standard time measure of the flow of cash, both interest and principal, to the bondholder. Longer duration will provide a higher return but also a higher risk.

Equity - Common and preferred stock

Financial Firewall - The legal protection from financial liability extending beyond the investment in the LLC or LP.

Foreign/International - Indigenous to and/or domiciled outside the United States of America

Global/World – Investment strategies that include both domestic and international investments.

Growth Style - Companies which are growing faster than stocks in general due to overall sector prosperity or a company specific characteristic allowing them to increase market share. Typically they will display higher P/E ratios, higher P/S ratios, higher price-to-book ratios, higher earnings growth and lower dividend yields.

High Yield – An investment in lower rated bonds.

Intermediate-Term – An investment time horizon between 1 and 10 years.

Large Cap - Those companies comprising the 500 largest as measured by market capitalization, typically those in excess of $8 billion.

Leverage - When capital is borrowed in increase capital commitment to a purchase.

Long-Term – An investment time horizon typically greater than 10 years.

Market Capitalization - The value the market assigns a publicly traded company. Market cap is found by multiplying the shares of common stock outstanding by the per share market price.

Mid Cap - Those companies comprising the 1000 largest as measured by market capitalization, excluding the largest 500. Typically this will be between $2 and $8 billion.

Non-Securities Investment - Investments that do not fall under the regulatory authority of the SEC.

Non-Systematic Risk - Risk factors which are peculiar to a specific stock or sector, optimal diversification eliminates non-systematic risk.

Normal Distribution - A statistical distribution of variable outcomes, commonly referred to as a bell curve.

Optimization - The process whereby an asset class, or the portfolio as a whole, is structured to ensure there is no uncompensated risk by eliminating all diversifiable risk. In an optimized state, it is not possible to increase return without increasing risk. Conversely, it is not possible to reduce risk without reducing return.

Passive Management - The process of managing a portfolio in a manner to match the return of the risk-appropriate benchmark either by sampling techniques or by matching the holdings of the benchmark.

Real Estate - Real Estate investments may invest domestically and take the form of a direct investment in a Private Investment Partnerships, a public or private REIT, or a Private Placement Agreement.

Risk - The measurable probability of losing (or not gaining) value. Risk is measured by standard deviation.

Secured Loans – Loans that have specific collateral pledged to the loan.

Short-Term – An investment time horizon of 1 year or less.

Small Cap - All publicly traded domestic equity excluding the largest 1000 companies as measured by market capitalization, typically below $2 billion.

Standard Deviation - The statistical calculation which measures the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. It is the square root of variance.

Symmetry - Formula for calculating the performance incentive (usually associated with alternative investments) that provides for a similar payment for performance above a stated benchmark and a similar disincentive (penalty) for underperformance relative to the stated benchmark.

Systematic Risk - Pervasive market risk which can not be eliminated through diversification.

Tracking Error - The measure of the difference between the expected investment return and the actual return.

Treasury Inflation Protected Securities - A special type of Treasury note or bond that offers protection from inflation. As with other Treasuries, when you buy an inflation-indexed security you receive interest payments every six months and a payment of principal when the security matures. The difference is that the coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). If U.S. Treasuries are the world's safest investments, then you might say that TIPS are the safest of the safe. This is because the real rate of return, which represents the growth of your purchasing power, is guaranteed. The downside is that, because of this safety, TIPS offer a low return

Value Style - Companies which may be out of favor with investors due to recent business problems, slow growth, industry maturity or distress. Typically they will display lower P/E ratios, lower P/S ratios, lower price-to-book ratios, lower earnings growth and higher dividend yields.

Variance - A statistical measure of the dispersion of results around the average (mean) of the results.

Unsecured Loans – Loans with no collateral pledge to them. Repayment is contingent upon the borrowers ability to repay.