

THE CITY OF FREDERICK
MAYOR AND BOARD OF ALDERMEN

RESOLUTION NO. 18-16

A RESOLUTION CONCERNING

PENSION BENEFIT TRUST OF THE CITY OF FREDERICK INVESTMENT POLICY STATEMENT

Whereas, The City of Frederick ("City") has created a Pension Benefit Trust Fund to provide pension benefits for retirees that meet certain eligibility criteria; and

Whereas, one of the methods to assist in the funding of the pension benefits is to invest pension assets in various security instruments; and

Whereas, it is in the best interest of the City to establish investment guidelines for the investment of the pension assets; and

Whereas, the City approved Resolution No. 14-18 on October 16, 2014 which adopted investment guidelines for the investment of the pension assets as set forth in the Pension Benefit Trust of The City of Frederick Investment Policy Statement; and

Whereas, the City approved Resolution No. 16-17 on September 15, 2016 which amended Resolution No. 14-18 by replacing the then current Attachment I, Attachment II and Attachment III with a revised Attachment I, Attachment II and Attachment III; and

Whereas, it is in the best interest of the City to review the adopted investment guidelines on a regular basis to determine if updates to the investment guidelines are appropriate; and

Whereas, the City's Pension Investment Consultant has reviewed the investment guidelines with the Mayor and Board of Aldermen and has recommended, with the concurrence of the Trust Investment Committee, certain changes to the asset allocation classes and targets of the Pension Benefit Trust of The City of Frederick Investment Policy Statement; and

Whereas, the Mayor and Board of Aldermen concur with the recommended changes to the Pension Benefit Trust of The City of Frederick Investment Policy Statement

NOW THEREFORE BE IT RESOLVED by the Mayor and Board of Aldermen of The City of Frederick that the Pension Benefit Trust of The City of Frederick as adopted by Resolution No. 14-18 and amended by Resolution No. 16-17 be repealed and replaced by the Pension Benefit Trust of The City of Frederick Investment Policy Statement attached hereto as Attachment A.

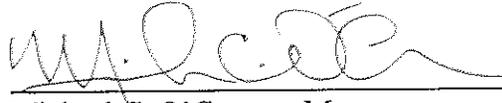
NOW THEREFORE BE IT FURTHER RESOLVED that this Resolution shall take effect upon adoption.

ADOPTED AND APPROVED, the 5th day of July 2018.

The City of Frederick

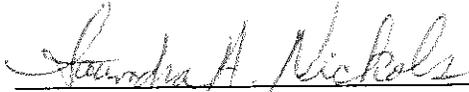


Witness



Michael C. O'Connor, Mayor

Approved for legal sufficiency:



Sandra A. Nickols, City Attorney

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

Attachment A

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

Effective July 5, 2018

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

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Pension Benefit Trust of The City of Frederick
Investment Policy Statement

INTRODUCTION

PURPOSE OF THE STATEMENT

Based upon, and in keeping with requirements governing the conduct of the individuals serving as fiduciaries for the Pension Benefit Trust of The City of Frederick (Trust), this Investment Policy Statement ("Statement") presents objectives, policies, guidelines, monitoring and review procedures relating to all assets ("Trust") of the City of Frederick Pension Plans (collectively, the "Plan"). The Plan's investment program shall be operated in conformance with federal, state, and all other legal requirements.

The Statement's purpose is to:

- 1) Present appropriate goals and objectives relating to the Trust.
- 2) Recognize and/or specify liquidity and diversification requirements and identify any legal constraints affecting investment management of the Trust.
- 3) Promulgate guidelines, consistent with any investment time horizon(s), Investment Manager classifications, and/or Investment Manager styles to which any Investment Manager(s) shall adhere when determining investment strategies, making periodic investment decisions, and/or undertaking specific investment transactions relating to the Trust.
- 4) Establish standards and procedures for monitoring, measuring, reviewing, and evaluating any Investment Manager(s) and/or Fund Custodian's investment performance and/or safekeeping of assets in accordance with investment policies, goals, objectives, guidelines, and/or constraints.
- 5) Foster understanding and effective communication between City and staff, and any persons appointed, employed, designated or in any way called upon by the City or staff to serve the Trust and its participants and/or beneficiaries.

PLAN DESCRIPTION

The City of Frederick Pension Plan consists of several currently enrolling and/or continued retirement plans categorized broadly as serving uniformed and/or non-uniformed City employees, active and/or retired, and their beneficiaries. Each basic category includes more than one continued or currently enrolling retirement plan, each requiring specific administration. Trust assets generally are commingled as to investment management but not as to Trust ownership, administration, or related recordkeeping.

PORTFOLIO MANAGEMENT PRECEPTS

The City endorses contemporary investment practices, based upon the construction of well diversified multi-asset portfolios, which facilitate control of investment risk and afford reasonably predictable long-term investment returns.

Pension Benefit Trust of The City of Frederick

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STANDARD OF CARE

1. Prudence

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. The “prudent person” standard states that, “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

Guidelines respecting prudence have been developed in light of investment objectives related solely to the Plan’s varied and dynamic obligations to its participants and beneficiaries. Actuarial, economic, investment, and socio-political events and trends are factors that affect meeting those obligations. Accordingly, these guidelines are, as a part of this Statement, intended to present broad and balanced considerations to guide incumbent and successor Mayors and Boards of Aldermen and staffs, and all other parties concerned, seeking appropriate allocation, investment, safekeeping, monitoring and evaluation of the Fund.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

3. Delegation of Authority

Authority to manage the investment assets is granted to the Investment Manager(s). Responsibility for the operation of the investment program is hereby delegated to the Investment Manager(s), who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Statement. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Manager(s). The Investment Manager(s) shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

RESPONSIBILITIES OF THE CITY AND STAFF

The City is charged with overall responsibility for investment of the Trust assets. To assist the City in this function, the City is authorized and permitted to appoint Investment Manager(s), including for this purpose: banks, insurance companies, and firms registered under the Investment Advisers Act of 1940 and/or Maryland law, to manage (including the power to acquire and dispose of) the Trust assets.

Pension Benefit Trust of The City of Frederick Investment Policy Statement

The City must also develop policies and guidelines regarding Trust investments. Policies and guidelines are inclusive of, but not restricted to:

- 1) Establishment of Investment Objectives, Investment Policy, Investment Guidelines, and Review procedures, as set forth herein.
- 2) Establishment of standards for measuring, monitoring, evaluating and comparing investment performance of the Trust to assure that investment returns are reviewed on a regular basis.
- 3) Establishment of authorization, reporting, control, review and general governance procedures to assure that Trust investment policies and guidelines are reviewed on a regular basis. All modifications of policies and/or guidelines shall be in writing, signed by appropriate City signatories, and delivered forthwith to any Investment Manager(s) and/or Custodian(s) affected by such changes.
- 4) Establishment of, through contractual relationships with professional organizations, or by alternative means satisfactory to the City, a Pension Trust management structure which will assure appropriate investment management, custody, and compliance procedures to attempt to meet objectives in conformity with the City's stated investment policies and guidelines.
- 5) The City shall examine this Statement from time to time and make appropriate revisions.
- 6) The City may consult with legal counsel as necessary.

RESPONSIBILITIES OF ANY INVESTMENT MANAGER(S)

The management of the Trust and the responsibilities for investment decisions are delegated to the appointed Investment Manager(s). Any Investment Manager(s) shall exercise complete discretion within the limits established by this Statement. Accordingly, the Investment Manager shall use its best efforts to comply with all Federal, State, and Local regulations in effect during the term of this agreement. Particular attention should be given to the fiduciary duties established by the prudent person doctrine.

Applicable terms, conditions, limitations and restrictions notwithstanding, any Investment Manager(s) serving the Trust shall discharge any duties relating to the Trust solely in the interest of Plan participants and beneficiaries, shall demonstrate appropriate knowledge of the Trust's purpose and contemporary operations, and shall diversify the investments of any Fund portfolio(s) so as to minimize the risk of substantial loss.

When contemplating any investment, investment strategy or investment course of action, and/or any securities transaction, any Investment Manager managing any Fund portfolio shall consider all relevant factual and circumstantial information and the impact of such information upon a particular investment, strategy, or program, and upon any investment portfolio of the Fund.

Pension Benefit Trust of The City of Frederick Investment Policy Statement

Further, respecting investment strategies, and/or courses of action for the Fund, any Investment Manager shall also consider:

- 1) Potential losses and gains
- 2) The composition of the Investment Manager's portfolio(s) with regard to:
 - a) Diversification.
 - b) Liquidity and current return relative to the Plan's cash flow requirements.
 - c) Projected total return relative to the Plan's funding objectives.

All investment performance data submitted to the City or to any designee thereof directly or indirectly by or on behalf of any Investment Manager(s) shall, as applicable, be submitted in conformity with the Performance Presentation Standards and/or Global Investment Performance Standards promulgated by the CFA Institute.

The delegation of discretion for the management of the Fund and responsibilities for investment decisions shall be limited by the provisions of this Statement. The City, when appointing an Investment Manager(s), shall require the Investment Manager(s) to covenant that it shall adhere to all applicable fiduciary standards and any governmental regulations and decisions dealing with the management and investment of pension funds, as well as any other laws as now apply or may apply in the future.

Fiduciary insurance, and officer liability and omissions and errors insurance coverage, of any Investment Manager(s), must meet standards set by the City from time to time.

If, at any time, an Investment Manager(s) believes that this Statement inhibits its investment performance, it is the Investment Manager's responsibility to communicate this view to the City and the Investment Consultant. In addition, the Investment Manager will promptly notify the City and Investment Consultant, in writing, regarding all material or significant matters that changes including but not limited to:

- 1) Changes in investment strategy, portfolio structure, tactical approaches, and market value of managed assets.
- 2) Changes in ownership, organizational structure, financial condition, and/or professional staff of investment firm.
- 3) All material legal, SEC, and other regulatory proceedings affecting the firm.

Pension Benefit Trust of The City of Frederick Investment Policy Statement

RESPONSIBILITIES OF THE FUND CUSTODIAN(S)

Any Custodian(s) appointed by the City shall be responsible for safekeeping of the Fund, including all security transaction settlements and deliveries, and for comprehensive recordkeeping and reporting, which shall include any custom recordkeeping, record retention, or reporting reasonably required by the City or staff. Ready access to information by the City and staff shall be a prime requisite of recordkeeping and reporting services. Transaction records shall be maintained on a trade date basis. Nationally accepted asset pricing should be daily and reported not less often than monthly.

Safety and continuity of operations shall be the primary objectives of any Custodian. Timely, accurate, and complete recordkeeping and reporting shall be the primary benchmarks for evaluation of Custodian performance.

Fund safekeeping and securities settlement procedures shall include direct Custodian participation in one or more appropriate securities depositories (e.g., Depository Trust Company, New York) and, as necessary, correspondent participation in other major depositories (e.g., the Federal Reserve System). The Trust's beneficial ownership of all assets shall be inviolate. City or designated Investment Managers(s) authority to direct all investment transactions shall similarly be protected.

RESPONSIBILITIES OF THE INVESTMENT CONSULTANT

The City may utilize the services of an investment consultant for the purpose of performance review, asset allocation studies, manager screening and selection and topical studies, or any other service deemed necessary and agreed upon by the City and Investment Consultant. The comments and recommendations of the consultant will be considered by the City in conjunction with other available information for the purpose of making an informed and prudent decision.

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

INVESTMENT OBJECTIVES

Investment objectives represent anticipated results and are long-term in nature. Given City assumptions respecting current and projected Plan and capital market conditions, the Trust objectives are:

- 1) Fund fiduciaries shall discharge their responsibilities and assets shall be invested in a manner consistent with this Statement, and generally accepted fiduciary standards. Further: (a) all transactions undertaken on behalf of this Trust shall be solely in the interest of Plan participants and their beneficiaries, and (b) with reference to prudence in Investments, set forth earlier in this Statement, safeguards and diversification to which a prudent investor familiar with and managing this Trust under known or foreseeable circumstances would adhere, and (c) liquidity and current return consistent with rationally anticipated cash flow requirements of the Trust, shall be governing factors in all investment considerations.
- 2) Consideration shall be given to suitable long-term Fund investment intended to provide capital and income growth. The City anticipates that such capital and income growth will be achieved during each economic and/or securities market cycle.
- 3) Consideration shall also be given, granting conformity with the objectives of 2., above, to providing adequate and timely Trust cash flows to meet anticipated Plan benefit payments, with sufficient reserves to meet unanticipated benefit payments. Adequate emphasis, consistent with the foregoing, shall be placed upon current investment return. Any Fund Investment Manager(s) shall be responsible for seeking periodic projections of Fund liquidity requirements from the City or any party designated by the City.
- 4) While professional managers may strive to record positive rates of investment return during all measurement periods, securities markets are unlikely to provide a consistently favorable climate, on a shorter-term basis, for longer-term investments. Therefore, the City sets forth the following investment objectives for comparative or benchmark measures of Trust investment return delineated as follows:
 - a. Based upon current and projected Plan and capital market conditions, the City desires net returns meeting or exceeding the Plan's actuarial rate of return assumption as the multi-year return target.
 - b. Consistent with 4 a), above, multiyear (5 year) return is desired to meet or exceed the annualized investment performance of a Fund "policy index" comprised of a weighted average of relevant asset-class indexes.
- 5) Investment performance objectives for the Trust are, as stated initially under *Investment Objectives*, above, long-term in nature. Concern respecting market value or Fund investment return volatility and other measures reflecting investment uncertainty, will be addressed by functional constraints imposed by the City through asset (class) allocations, investment management processes or "styles" chosen, portfolio diversification requirements, and other investment management guidelines and/or limitations.

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Investment Policy Statement

INVESTMENT POLICY

Investment Policy delineates controls and the associated monitoring intended to enhance the likelihood of meeting Investment Objectives:

ASSET ALLOCATION

Asset class allocation, resulting in so-called asset mix, is intended to afford an appropriate approach toward Fund Investment Objectives while limiting investment risk by providing basic diversification. The percentages of asset classes delineated in **Attachment I, II, III** provide a framework through which the Fund's investments may be adjusted to meet economic and/or investment market conditions while remaining centered on the allocation target deemed appropriate to the Trust's long-term Investment Objectives.

In the event an Investment Manager invests in more than one asset class, for example, a balance manager or global equity manager, the manager's benchmark allocation to each asset class will be attributed to that particular asset class. For example, if a global equity manager's benchmark is allocated ten percent of the *total fund* and its benchmark is invested sixty percent of their allocation in international equities, sixty percent of their allocations will be attributed to international equities and therefore, six percent of the *total fund* allocated to international equities.

ALLOCATION MONITORING/REBALANCING

The City or their designee(s) shall review asset allocation quarterly to monitor Fund asset allocation targets. In the event that asset allocations fall moderately outside the ranges in the tables in **Attachment I, II, III**, the appointed Custodian(s) may be notified and instructed by the City to adjust cash flows to return the Fund to appropriate asset allocation levels. Should an allowable range be breached substantially, the Investment Manager(s) involved may be required by the City to adjust assets immediately. The City may set asset allocation ranges for individual Investment Manager(s) different from ranges for the Trust.

Pension Benefit Trust of The City of Frederick Investment Policy Statement

LIQUIDITY

Emphasis shall, per Investment Objective, 3, above, be placed on providing adequate and timely Trust cash flow to permit benefit payments from the Plan when due. The City endeavors to meet the Trust's multiple Investment Objectives through asset allocation and Investment Guidelines. Nevertheless, any Investment Manager(s) appointed by the City shall be responsible for seeking from the City or their designee(s) current information respecting Trust cash flow requirements and for assisting in meeting said requirements.

DIVERSIFICATION

Fund investments must be diversified broadly to minimize the risk of substantial loss. The City recognizes that significant diversification is accomplished through asset allocation and the selection of investment management organizations. Nevertheless, the Investment Guidelines provided herewith include certain constraints intended to optimize investment diversification.

PROXY VOTING

Matters of political and public interest as well as corporate governance have long been a part of Annual Meetings and proxy activity in the United States. The City adheres to a policy of proxy voting intended to protect the **long-term value** of the equity securities represented in each vote, provided said vote, when exercised, would be solely in the interest of Plan participants and their beneficiaries. The City, when delegating proxy voting authority to any Investment Manager(s), may provide general guidance as to the City's proxy voting standards, but shall provide proxy matter viewpoints only if, and as requested, by any Investment Manager(s).

MUTUAL AND OTHER COMMINGLED FUNDS

Given the nature of mutual and other commingled funds, it is recognized that there may be deviations between the objectives, intent or specific requirement of this Statement and the stated objectives, intent or content of any mutual or other commingled fund. However, every effort shall be made, to the extent practical, prudent and appropriate, to select mutual or other commingled funds that have investment objectives and policies that are consistent with this Statement.

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

INVESTMENT GUIDELINES

Investment Guidelines describe for the guidance of Fund Investment Manager(s) and for the information of the Fund Custodian(s) a range of permissible investment activities and choices while also delineating, specifically or by broader proscription, those which are not permissible. Investment Guidelines for the Trust appear below. Different guidelines and benchmarks may be assigned to individual Investment Managers by written authority of the City.

GENERAL GUIDELINES

Subject to the asset allocation ranges set forth as a table in **Attachment I, II, III**, or separate asset allocation ranges assigned specifically to any Investment Manager(s) by the City, any Investment Manager is expected to undertake discretionary management of any Fund portfolio. Nevertheless, when responsible for any Fund investment portfolio, the Investment Manager(s) shall report immediately to the City or their designees any shift between or decrease in market value of asset classes during any calendar quarter which equals or exceeds ten (10) percent of the market value of the assets assigned to the Investment Manager(s). For the purpose described herein, cash and money market or cash equivalent securities shall be considered an asset class.

The Investment Manager(s) shall conform to the Investment Guidelines set forth above and below. Any departure from the Guidelines must be submitted in writing to the City for prior approval, as must any change in the "style" or investment philosophy, process, or practices approved by the City at the time any Investment Manager was retained to serve the Fund.

- 1) Full discretion, consistent with the Investment Objectives, Investment Policies, and Investment Guidelines set forth in this Statement, is granted to each Investment Manager retained to manage securities.
- 2) Each Investment Manager shall select investments in conformity with criteria normally applied in its decision making process and previously reviewed and approved by the City.
- 3) The total annualized investment return from all investments of the Trust and each asset class of the Trust is expected to meet or exceed the total annualized return of the appropriate benchmark designated for rolling five (5) year periods.
- 4) Any security purchased in compliance with the quality, maturity, and/or diversification standards cited above, but no longer meeting a specific, per-security Investment Guideline standard, and/or by marginal effect causing portfolio non-compliance, may, in lieu of immediate sale, be reported to the City with background information and an intended future course of action by any Investment Manager(s). The City may, upon review, approve temporary or indefinite retention or, in the City's best judgment, order disposition of the security and a return to full compliance with the Investment Guidelines. For any individual Investment Manager(s), securities retained under such circumstances shall constitute no more than five (5) percent of the market value of securities (5 percent "basket clause").

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- 5) Any Investment Manager(s) managing active portfolios may be assigned indices or other types of benchmarks deemed suitable for them and agreed upon with the City; as a general expectation those managers should exceed their assigned benchmarks, net of fees, on an annualized basis over periods of five (5) years or more.

The City has determined, except as noted in the Mutual Funds and Other Commingled Funds guidelines, the Real Estate, GTAA and Private Infrastructure Investment Guidelines, that the following investments and investment practices are **not suitable** for the Trust. (Certain exceptions are delineated below, see Fixed Income, GTAA and Private Infrastructure Investment Guidelines).

- 1) Buying or (short) selling securities on margin, and/or the use of any other form of leverage, including the lending of securities, unless approved in writing by the City.
- 2) Privately placed or otherwise unregistered securities excepting fixed income securities, issued under SEC Rule 144(a), which are demonstrably marketable and otherwise within guidelines.
- 3) Direct Investment in commodities or in any type of commodities contracts, forward, or futures trading activities, and all forms of portfolio hedging, excepting the limited use of stock options and/or currency hedges. Investments in mutual funds that invest in commodities are not considered direct investments.
- 4) Fixed income investments may not include deep discount or zero coupon (excepting U.S. Treasury) securities, tax exempt, derivative or synthetic securities, such as collateralized debt obligation (CDOs), credit default swaps (CDS), interest rate swaps and any total return swaps.

EQUITY INVESTMENT GUIDELINES

- 1) Permissible equity investments shall include convertible securities and publically traded REITS, which shall be limited to five (5) percent of Trust at market value, as well as American Depositary Receipts (ADRs), equally limited.
- 2) No Investment Manager shall invest on a market value basis more than five (5) percent of the equity portion of any portfolio in the equity security(ies) of a single corporation or group of directly affiliated corporations. Exceptions may be granted to this limitation only if provided for in writing with the Investment Manager or in the investment guidelines of the Investment Manager contract.
- 3) No Investment Manager may make or maintain an investment equaling or exceeding ten (10) percent ownership of the outstanding equity security(ies) of a single corporation, or group of directly affiliated corporations, without the written consent of the City.

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- 4) Investment Manager(s) are expected to purchase marketable equity securities listed on national securities exchanges or actively traded within the national NASDAQ framework; U.S. equity securities, purchased outside the channels cited, or purchased without regard to necessary market liquidity as demonstrated through weekly trading statistics, place upon the Investment Manager(s) a special burden respecting City's tolerance of unacceptable risk and/or losses which might ensue.
- 5) As an exception to the general prohibition against so-called alternative investment instruments, stock options may be utilized by an Investment Manager(s) managing U.S. equity securities in "covered" or hedging postures but not in "naked" or speculative postures.
- 6) Proper global, regional, national, industry and individual security diversification should be maintained at all times.
- 7) Because an active currency hedging strategy may reduce risk of loss and/or enhance manager investment performance, hedging to protect against currency impact upon a security position is permissible. Nevertheless, the purchase of speculative or "naked" currency contracts (i.e., currency trading or related risk taking), undertaken without a demonstrable exposed investment position to be hedged in a specific currency, is prohibited.
- 8) All Investment Managers shall divest in the equity securities of a company engaged in the operation of private prisons and refrain from making new investments in such companies.

FIXED INCOME INVESTMENT GUIDELINES

- 1) Suitable fixed income investments include, but are not limited to, U.S. Treasury and Agency securities, taxable municipal securities, marketable debt securities of U.S. corporations, U.S. certificates of deposit and banker's acceptances, and commercial paper or other generally utilized money market or cash equivalent investments, including money market mutual funds meeting the quality standards delineated below.
- 2) Investment Managers are given latitude in security selection subject to the following restrictions:
 - a) No issuer, other than the U.S. Government or other Federal agencies, may represent more than five (5) percent of the total market value of the fixed income portfolio managed by any Investment Manager(s).
 - b) At no time shall margin or other leveraged transactions, short sales, forward or futures trading, or any form of portfolio hedging be employed in the management of fixed income investments without prior written approval of the City.

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- c) The average quality of fixed income securities purchased by any Investment Manager(s) shall equal or exceed A₂, the third broad investment grade as determined by Moody's.
- d) So called noninvestment grade bonds (below Baa) are permissible but may not constitute more than twenty (20) percent of the fixed income portfolio.
- e) The effective duration of fixed income securities, said average including any investments considered to be reserve or cash equivalent assets specific to any fixed income portfolio, shall be no more than twenty five (25) percent greater or fifty (50) percent less than the effective duration of the policy benchmark.
- f) There shall be no limit upon investment in U.S. Treasury securities as a percentage of fixed income investments at cost or market value, except that any single coupon issue thereof may constitute no more than thirty (30) percent of any Investment Manager(s)' fixed income investments at market value and any single Treasury zero coupon issue ten (10) percent at market value. Federal Agency securities are hereby limited to fifty (50) percent of fixed income investments at market value, twenty-five (25) percent per agency, and to ten (10) percent, at market value, per any single Federal Agency issue.

REAL ESTATE INVESTMENT GUIDELINES

Permissible real estate investments include private and public real estate securities, including, Real Estate Investment Funds (REITs) or other Investments in equity real estate held in the form of income-producing commercial, residential, or other real property, and/or through professionally-managed public or private pooled real estate investment funds, limited partnerships, and publicly traded stocks.

Pooled real estate investment funds are limited primarily to core real estate investments. Core investments are generally considered to be stable, well-maintained properties located in major metropolitan areas with high occupancy rates and high quality tenants. Property types include, but are not limited to, office, industrial, retail, multi-family apartments, and hotels.

Non-core real estate strategies (i.e. value add and opportunistic) are limited to 25%. Both value add and opportunistic strategies invest in properties that are generally purchased for refurbishment, re-positioning, re-leasing, property development, distressed, and mezzanine lending. Such strategies generally employ higher leverage and offer less liquidity.

Pooled real estate investment funds will diversify their exposures by property type and location. It is expected that at various points in time, the portfolio may be more heavily exposed to a single property type or location by virtue of opportunities in the market that are expected to generate excess return above long term expectations. The diversification of the real estate portfolio will be compared to the composition of its peer benchmark the NCREIF ODCE Index.

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GLOBAL TACTICAL ASSET ALLOCATION (GTAA) INVESTMENT GUIDELINES

- 1) The GTAA strategy is designed to strategically adjust the exposure to global stock, bond, commodity and currency markets, with the goal of outperforming broad market benchmarks over time. GTAA managers may utilize active or passive portfolios to accomplish this.
- 2) GTAA funds may invest in any and all asset classes, including but not limited to; U.S. stocks and bonds, international stocks and bonds and commodities. Any GTAA investments must be in publically traded mutual funds.
- 3) GTAA managers are expected to evaluate and invest in global investment instruments, including derivative instruments. Derivatives may be used to obtain market exposure or mitigate risk at the discretion of the individual manager within the guidelines of each manager's contract.

PRIVATE INFRASTRUCTURE INVESTMENT GUIDELINES

Infrastructure is broadly defined as the essential assets a society requires to facilitate the orderly operation of its economy and can be broken out into three broad categories: transportation, utility, and social. Typically, they are long-lived assets with low growth, similar volatility to real estate, and have an income stream tied to GDP/inflation that exceeds that of bonds. The Fund's private infrastructure allocation will consist predominately of core infrastructure strategies/assets. Such assets are generally characterized as having a mature age, steady cash flows, long-term, regulated contracts, low growth opportunities, monopolistic or semi-monopolistic competitive positioning, and a total return profile consisting predominately of cash yield.

Private infrastructure investments will be implemented through commingled fund vehicles. Direct investment in private infrastructure assets by the Fund is prohibited. The underlying infrastructure assets held by the commingled vehicles in which the Fund invests shall be adequately diversified by geography and broad infrastructure sector.

With the understanding that private infrastructure managers employ leverage to enhance returns, leverage within the private infrastructure allocation of the Fund shall be limited to 75%. Leverage may be utilized at the commingled fund or asset-level. Leverage for individual asset may exceed 75%. The performance benchmark for the infrastructure portion of the Fund is the LIBOR plus a 4% annual premium.

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The investment risks associated with illiquid assets will be mitigated through the following requirements:

- 1) Institutional Quality: All investments must be institutional investment quality. Institutional quality is defined as an investment that would be considered acceptable by other prudent institutional investors (e.g., insurance companies, commercial banks, public employee retirement systems, corporate employee benefit plans, endowments and other tax-exempt institutions).
- 2) Diversification: No more than ten (10%) of the total portfolio will be invested at any time with any single partnership, entity, or organization.

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REVIEW PROCEDURES

All *Investment Policies, Objectives and Guidelines* contained in this Statement shall be reviewed by the City annually, or whenever circumstances change to the extent that the earlier representations are ineffective or inappropriate. All concerned parties shall be notified, in writing, of any changes and/or additions to this Investment Policy.

- 1) Investment performance will be reviewed quarterly.
- 2) Fund asset class (e.g. equity, fixed income), and asset sub-class and/or “style” returns shall be compared to returns of comparable professionally managed tax-exempt balanced, equity and fixed income portfolios or collective or mutual funds as well as to benchmark indices or index composites.
- 3) It is expected that the investment performance of any Investment Manager(s) will rank above agreed upon peer group medians over periods of five (5) or more years and will meet or exceed the Investment Objectives previously identified in this Statement. Any Investment Manager(s) failing to keep pace with stated performance norms may be placed on probation and evaluated as to whether it is in the best interest of the Trust to have the City retain the services of said Investment Manager(s).
- 4) The City reserves the right to terminate a relationship with any Investment Manager(s) at any time, subject to the terms of any investment advisory agreement, if the City determines that said action is warranted. In addition, the City reserves the right to remove assets, in part, at any time, provided that contracted asset and/or minimums of any Investment Manager(s) are met.
- 5) Investment Manager(s) shall provide statements of assets under management to the City quarterly, and shall also comply with reasonable additional requests from the City, including details of any/all securities transactions and /or “soft dollar” payments if said payments are made at official City request and/or arise from transactions involving the Fund’s assets.
- 6) Investment Managers shall meet at least annually, if requested by the City, to review the Fund and any respective portfolio(s) with the City, and to discuss investment results in the context of all of the goals Investment Objectives, and Investment Guidelines set forth in this Statement.

ADOPTION

This Investment Policy Statement was approved by the Mayor and Board of Aldermen on July _____, 2018.

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

ATTACHMENT I

Asset Allocation Guidelines: 22 Year Pension Plan

Table 1:

Asset Class	Minimum %	Target %	Maximum %	Benchmark
Equities	50%	60%	70%	
Domestic	28%	38%	48%	Russell 3000
International	12%	22%	32%	MSCI ACWI ex U.S. imi (net)
Private Real Estate	2%	7%	12%	NCREIF ODCE
Private Infrastructure	0%	5%	10%	LIBOR + 4%
Fixed Income	18%	28%	38%	
Bonds	17%	27%	37%	Barclay's Intermediate Government Credit
Cash	0%	1%	5%	ML 90 Day T-Bill

The asset allocation guidelines listed in Table 1 above will become effective only after an investment in Private Infrastructure is made *AND* after an additional contribution to Private Real Estate is made. Until that time, the asset allocation in Table 2 that follows will be in effect. In the event that the total commitment to Private Infrastructure and the additional commitment to Private Real Estate are not called in-whole on the same date, the current investment guidelines will migrate towards the newly approved investment guidelines as the investment manager(s) call(s) the committed capital for investment. Specifically, the investment guidelines will be adjusted in up to four (4) increments of 125 basis points for Private Infrastructure and 50 basis points for Private Real Estate as each investment manager calls fully 25%, 50%, 75% and 100% of the total capital commitment by:

A) For Private Infrastructure calls:

- 1) Increasing the target allocation to Private Infrastructure
- 2) Decreasing the target allocation to Equities (Domestic and International)

B) For Private Real Estate calls:

- 1) Increasing the target allocation to Private Real Estate
- 2) Decreasing the target allocation to Fixed Income/Bonds

**Pension Benefit Trust of The City of Frederick
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Table 2:

Asset Class	Minimum %	Target %	Maximum %	Benchmark
Equities	55%	65%	75%	
Domestic	32%	42%	52%	Russell 3000
International	13%	23%	33%	MSCI ACWI ex U.S. imi (net)
Private Real Estate	0%	5%	10%	NCREIF ODCE
Fixed Income	20%	20%	40%	
Bonds	19%	29%	39%	Barclay's Intermediate Government Credit
Cash	0%	1%	5%	ML 90 Day T-Bill

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

ATTACHMENT II

Asset Allocation Guidelines: 25 Year Pension Plan

Table 1:

Asset Class	Minimum %	Target %	Maximum %	Benchmark
Equities	50%	60%	70%	
Domestic	28%	38%	48%	Russell 3000
International	12%	22%	32%	MSCI ACWI ex U.S. imi (net)
Private Real Estate	2%	7%	12%	NCREIF ODCE
Private Infrastructure	0%	5%	10%	LIBOR + 4%
Fixed Income	18%	28%	38%	
Bonds	17%	27%	37%	Barclay's Intermediate Government Credit
Cash	0%	1%	5%	ML 90 Day T-Bill

The asset allocation guidelines listed in Table 1 above will become effective only after an investment in Private Infrastructure is made *AND* after an additional contribution to Private Real Estate is made. Until that time, the asset allocation in Table 2 that follows will be in effect. In the event that the total commitment to Private Infrastructure and the additional commitment to Private Real Estate are not called in-whole on the same date, the current investment guidelines will migrate towards the newly approved investment guidelines as the investment manager(s) call(s) the committed capital for investment. Specifically, the investment guidelines will be adjusted in up to four (4) increments of 125 basis points for Private Infrastructure and 50 basis points for Private Real Estate as each investment manager calls fully 25%, 50%, 75% and 100% of the total capital commitment by:

A) For Private Infrastructure calls:

- 1) Increasing the target allocation to Private Infrastructure
- 2) Decreasing the target allocation to Equities (Domestic and International)

B) For Private Real Estate calls:

- 1) Increasing the target allocation to Private Real Estate
- 2) Decreasing the target allocation to Fixed Income/Bonds

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Investment Policy Statement**

Table 2:

Asset Class	Minimum %	Target %	Maximum %	Benchmark
Equities	55%	65%	75%	
Domestic	32%	42%	52%	Russell 3000
International	13%	23%	33%	MSCI ACWI ex U.S. imi (net)
Private Real Estate	0%	5%	10%	NCREIF ODCE
Fixed Income	20%	20%	40%	
Bonds	19%	29%	39%	Barclay's Intermediate Government Credit
Cash	0%	1%	5%	ML 90 Day T-Bill

Pension Benefit Trust of The City of Frederick
Investment Policy Statement

ATTACHMENT III

Asset Allocation Guidelines: 30 Year Pension Plan

Table 1:

Asset Class	Minimum %	Target %	Maximum %	Benchmark
Equities	50%	60%	70%	
Domestic	28%	38%	48%	Russell 3000
International	12%	22%	32%	MSCI ACWI ex U.S. imi (net)
Private Real Estate	2%	7%	12%	NCREIF ODCE
Private Infrastructure	0%	5%	10%	LIBOR + 4%
Fixed Income	18%	28%	38%	
Bonds	17%	27%	37%	Barclay's Intermediate Government Credit
Cash	0%	1%	5%	ML 90 Day T-Bill

The asset allocation guidelines listed in Table 1 above will become effective only after an investment in Private Infrastructure is made *AND* after an additional contribution to Private Real Estate is made. Until that time, the asset allocation in Table 2 that follows will be in effect. In the event that the total commitment to Private Infrastructure and the additional commitment to Private Real Estate are not called in-whole on the same date, the current investment guidelines will migrate towards the newly approved investment guidelines as the investment manager(s) call(s) the committed capital for investment. Specifically, the investment guidelines will be adjusted in up to four (4) increments of 125 basis points for Private Infrastructure and 50 basis points for Private Real Estate as each investment manager calls fully 25%, 50%, 75% and 100% of the total capital commitment by:

A) For Private Infrastructure calls:

- 1) Increasing the target allocation to Private Infrastructure
- 2) Decreasing the target allocation to Equities (Domestic and International)

B) For Private Real Estate calls:

- 1) Increasing the target allocation to Private Real Estate
- 2) Decreasing the target allocation to Fixed Income/Bonds

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Table 2:

Asset Class	Minimum %	Target %	Maximum %	Benchmark
Equities	55%	65%	75%	
Domestic	32%	42%	52%	Russell 3000
International	13%	23%	33%	MSCI ACWI ex U.S. imi (net)
Private Real Estate	0%	5%	10%	NCREIF ODCE
Fixed Income	20%	20%	40%	
Bonds	19%	29%	39%	Barclay's Intermediate Government Credit
Cash	0%	1%	5%	ML 90 Day T-Bill