INVESTMENT MANAGEMENT POLICIES, GUIDELINES AND OBJECTIVES

For The

TOWN OF LONGBOAT KEY RETIREMENT SYSTEM

I. INTRODUCTION AND BACKGROUND

The Town of Longboat Key Retirement System is a defined employee pension benefit plan established by Ordinance of the Town of Longboat Key to provide retirement benefits for its employees, firefighters, and police officers. The Town of Longboat Key is the “plan sponsor”. The Plan is administered by the Retirement System Board of Trustees. The Plan is a pension plan maintained to provide retirement, disability, termination and death benefits, as the case may be, to participants in accordance with the express provisions of the Plan. The plan is frozen and will not accept new participants in its componet plans: Police as of 1 Feb 2014, Fire as of 1 Oct 2013 and General as of 1 Oct 2013. The total number of participants at its inception is XXX. The management of this plan is to ensure funds are available to its participants until they pass on or receive their benefit until exhausted.

The Plan and the benefits provided thereunder are funded by contributions by the Town of Longboat Key, Employees' contributions, interest income and other income in accordance with the underlying Plan documents.

The Board of Trustees is charged by Ordinance and Chapter 112, Florida Statutes with the responsibility of developing a policy for the investment of the assets of the Fund. The trustees are named fiduciaries. The investment of the assets of our retirement plan must be consistent with the written investment policy adopted by the board of trustees. The policies are structured to maximize the financial return to the retirement plan consistent with the risks incumbent in each investment and are structured to establish and maintain an appropriate diversification of the retirement system’s assets. To assist the Board in this function, they are authorized to engage the services of investment and actuarial consultants to provide expert assistance. The Board periodically undertakes studies to evaluate the potential consequence of alternative investment strategies on the long term well being of the Plan. In the view of its consultants and the Board, the investment program defined in this Statement will produce a result over the long term consistent with the Plan's primary objective of preserving its assets with a reasonable rate of return.

In the implementation of the investment program, the Plan will employ investment managers who have demonstrated expertise with particular asset classes. Furthermore, the Plan's investment managers utilize a variety of investment approaches. This diversification of managers and investment approach should limitthe risk of loss and contribute to the attainment of a more consistent positive return. Nonetheless, there will be short term periods when the fund will experience unpredictable negative returns. Such periods are not inconsistent with achievement of the targeted long term objective.

II. INVESTMENT POLICY AND OBJECTIVES

Based on analysis of the Plan assets and expected investment returns and risks associated with alternative asset mix strategies, the Board adopted the following asset class targets, based on market value:

TRADITIONAL ASSET CLASSES	% Range	% Target
EQUITY MANAGER(S)		
Large Capitalization Value Manager	*15.00 – 10.00%*	*12.50%*
Large Capitalization Growth Manager	*15.00 – 10.00%*	*12.50%*
Large Capitalization Core Manager	*12.50 – 7.50%*	*10.00%*
Mid Capitalization Value Manager	*5.00 – 0.00%*	*2.50%*
Mid Capitalization Growth Manager	*5.00 – 0.00%*	*2.50%*
Small Capitalization Value Manager	*5.00 – 0.00%*	*2.50%*
Small Capitalization Growth Manager	*5.00 – 0.00%*	*2.50%*
International Value Manager	*7.50 – 2.50%*	*5.00%*
International Growth Manager	*7.50 – 2.50%*	*5.00%*
Total Equity	*60.00 – 50.00%*	*55.00%*
FIXED INCOME MANAGER(S)	*30.00 – 20.00%*	*25.00%*
TOTAL TRADITIONAL ASSET CLASSES		*80.00%*

ALTERNATIVE ASSET CLASSES	% Range	% Target
PRIVATE REAL ESTATE	*12.50– 0.00%*	*10.00%*
FUNDS OF HEDGE FUNDS	*7.50 – 0.00%*	*5.00%*
MASTER LIMITED PARTNERSHIPS	*7.50 – 0.00%*	*5.00%*
TOTAL ALTERNATIVE ASSET CLASSES	*25.00 – 0.00%*	*20.00%*
TOTAL TRADITIONAL & ALTERNATIVE		*100.00%*

These ranges and targets are established as maximum weightings in each respective asset class. If the investment manager determines that a percentage of their allocation should be invested in cash, then they are permitted that flexibility and will be evaluated by their decisions accordingly.

Over time, it is the Board's intention to direct cash flows toward the asset class(es) that are under-represented and away from the class(es) that are over-represented. Rebalancing of assets to maintain target ratios is required annually, at minimum.

The General investment objectives of the Board are as follows:

1. **<u>Establish a Prudent Investment Program</u>**

Although the Retirement System is not covered by the Employee Retirement Income Security Act of 1974 (ERISA), the assets of this fund shall be invested in a manner consistent with the fiduciary standard set forth in ERISA, as though ERISA applied to the Retirement System; namely, (1) in accordance with the safeguards and diversity to which a prudent investor would adhere (2) and all transactions undertaken on behalf of the Fund must be for the sole interest of Plan participants and their beneficiaries in order to provide benefits and pay the expenses of the Fund. The trustees shall be familiar with the requirements set forth in ERISA. The pension investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets.

2. **Investment Objective**

Primary investment emphasis must be placed upon the consistent protection of the funds assets and growth performance, i.e., the achievement of adequate investment growth must not be at the expense of the protection of the assets over the investment horizon.

More specific investment objectives established by the Board include the following:

- The Fund should earn a return over time exceeding the assumed actuarial rate. As of October 1, 2014, the actuarial rate is 7.0% for the General Employees portion of the fund, 8.0% for the Firefighter portion of the fund, and 7.5% for the Police portion of the fund. Eventually and before 1 October 2015, one actuarial rate will be determined and used for the combined fund. The actuarial rate shall be reviewed and adjusted as needed periodically

- The Fund should earn a return greater than inflation, as measured by the Consumer Price Index, by 3.0% per year. Meeting this objective indicates that the active management of the various portfolio components has added value over a passively managed fund. It is also consistent with the Board's objective to at minimum, preserve its assets with a reasonable rate of return on the Funds.

- Individual investment managers will not be measured against the aggregate fund objective stated above. They will be compared to appropriate market indices, and the performance of other managers who utilize a similar investment style. The Board, with advice from the consultant, shall approve each fund manager’s use of an appropriate benchmark for comparison and measurement.

III. TRADITIONAL ASSET CLASSES - INVESTMENT GUIDELINES

A. Liquidity Requirements

There is a requirement to maintain liquid reserves for the payment of pension benefits and expenses. The Board will review these projected cash flow requirements at least annually. To this end the Investment Managers should, to the extent possible, attempt to match investment maturities with known cash needs and anticipated cash flow requirements.

B. Securities Permitted on an Interim Basis

Investments may be made in Exchange Traded Funds (EFTs) or iShares on an interim basis during manager searches.

C. Monitor & Compliance

The Plan shall comply with the Protecting Florida's Investments Act (PFIA). The investment managers selected by our consultant are prohibited from purchases and are required to divest any investments in those companies with certain business operations in the countries of Sudan and Iran that are designated as "scrutinized companies" under the PFIA. Each manager shall be responsible for keeping current as to the companies that are listed as "scrutinized companies" by the Florida State Board of Administration. The consultant shall report quarterly on each manager's compliance.

D. Equities

The investment managers are permitted to invest in equity securities (including convertible bonds) listed on the New York, American and principal regional and foreign (for foreign securities) exchanges. They may also invest in over-the-counter securities for which there is an active market maker regulated by the National Association of Securities Dealers (NASD). For international investing, American Depository Receipts (ADR) that trade over the counter, such as "Pink Sheet" ADRs and Bulletin Board ADRs are permissible as well as any foreign company that trades directly in a U.S. equity market. Any investment that does not fall into a category listed above is prohibited.

The equity portion of each portfolio manager shall not:

1. Be more than 5% invested in the securities of any one company at market.
2. Make short sales.
3. Use margin or leverage.
4. Be invested in commodities.
5. Be invested in private real estate

6. Be invested in " investment art objects."

7. Invest in Options, including the purchase, sale or writing of options unless options are "covered" by the corresponding security or liquid cash equal to the purchase amount.

8. Be invested in warrants, although warrants issued in connection with stocks held by the fund may be sold, held, or converted by the investment manager at its discretion.

The consultant's responsibility is to report any non-compliance to the trustees each quarter.

a.) Large Capitalization Value, Growth, & Core Stocks

Large capitalization stocks are expected to have the greatest weighting in the Retirement System. They are expected to provide more consistent returns (dividends, interest, and capital gains) over time than our other equity styles. The objective is to maximize investment return over a market cycle by investing in large capitalization equities having the potential to generate investment returns exceeding those of a passively managed large stock index.

Large-capitalization equity manager performance parameters include the following:

- Performance within the top half of a Universe of Large Capitalization Value, Growth, or Core Managers.

- Performance that meets or exceeds the Russell 1000 Value or Growth Indexes.

- When appropriate, performance that meets or exceeds the performance of the S&P.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed that of the appropriate market index without a corresponding increase in performance above the index.

- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.
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- Consideration should be given to using passive index funds.

b.) Small/Mid Capitalization Value & Growth Stocks

Small/mid capitalization stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective is to maximize investment return over a market cycle by investing in small/mid capitalization equities having the potential to generate investment returns exceeding those of a passively managed small/mid stock index.

Small/mid capitalization equity manager performance parameters include the following:

- Performance within the top half of a Universe of Small/Mid Capitalization Value or Growth Managers

- Performance the equals or exceedsthe Russell Midcap Value Index or Russell 2500 Growth Index.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed that of the appropriate market index without a corresponding increase in performance above the index.

- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle for the small/mid capitalization market.

c.) International Stocks

International Stocks are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long run. The objective is to maximize investment return over a market cycle by investing in developed or emerging markets international securities through American Depository Receipts (ADRs) as well as any foreign company that trades directly in a U.S. equity market. Emerging markets exposure can also be achieved through the purchase of an institutional mutual fund. Emerging markets exposure should not exceed 33% of the total international allocation. These equities should generate investment returns exceeding those of a passively managed international index.

Developed & emerging markets international equity manager performance parameters include the following:

- Exceed MSCI EAFE – Net Dividend or MSCI All Country World ex. US Index.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed that of the appropriate market index without a corresponding increase in performance above the index.

- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle of the international market.

E. **Fixed Income**

Fixed income securities shall be invested entirely in marketable debt securities issued or guaranteed by either (a) the United States Government or its agencies, (b) domestic corporations (including industrial and utilities) or Israel Bonds (c) asset-backed (ABS) and commercial mortgage-backed securities (CMBS), (d) domestic banks and other US financial institutions. All securities must hold a rating in one of the four highest classifications by a major rating service. Such investments shall all be in accordance with the Code of the Town of Longboat Key. Any investments that do not fall under the criteria listed above are prohibited from being purchased. Securities ratings reduced beneath the four highest classifications after purchase should be sold by the portfolio manager within a reasonable period of time as determined by the manager. It is the manager's responsibility to notify the board in writing immediately after a security is downgraded below the policy guidelines. The written explanation should describe the manager's intentions regarding the disposition of the security being downgraded. Restrictions on fixed income include the following:

1. Except for Treasury and Agency obligations, the debt portion of the Fund shall contain no more than five percent (5%) of a given issuer irrespective of the number of differing issues. Other diversification standards should be developed and applied by the Investment Manager(s).

2. If commercial paper is used it must be only of the highest quality (A-1 or P-1).

3. Private placement debt is not permissible except 144a placements. **Rule 144A**. Securities Act of 1933, as amended provides a safe harbor from the registration requirements of the Securities Act of 1933 for certain private resales of minimum $500,000 units of restricted securities to qualified institutional buyers (QIBs).

4. The maximum weighting of fixed income in BBB ratings is 15%.

Fixed income manager(s) performance parameters include the following:

- Performance that meets of exceeds the Barclays Capital Aggregate Bond Index.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) mustnot exceed that of the Barclays Capital Aggregate Bond Index without a corresponding increase in performance above the index.

- Achieve the above objectives within a time horizon of a minimum of three to five years or a full market cycle.

ALTERNATIVE ASSET CLASSES - INVESTMENT GUIDELINES

Alternative asset classes historically have low to moderate correlation to market indices. Alternative asset classes are expected to improve total portfolio diversification and provide opportunities for higher incremental returns over the long-term. Many of the asset categories are expected to generate absolute returns (positive returns regardless of market environment) versus relative returns (returns comparative to a given benchmark).

Alternative asset classes guidelines differ from traditional asset classes guidelines. Alternative asset managers may use leverage and derivatives, may short securities, generally have higher fees, typically have reduced liquidity, and performance is dependent primarily on advisor skill.

A. Real Estate

Real Estate Investment Trusts (REITs)
The investment managers are permitted to invest in real estate investment trusts (REITs) listed on the New York, American and principal regional and foreign (for foreign securities) exchanges. They may also invest in over-the-counter securities for which there is an active market maker regulated by the National Association of Securities Dealers (NASD).

Private Real Estate
The investment managers are permitted to invest in private real estate. Private real estate will be purchased through an institutional vehicle. The institutional vehicle provides diversification of property type and geographical location and provides a competitive price structure.

a.) Real Estate Investment Trusts (REITs)

Real Estate Investment Trust securities are expected to improve total portfolio diversification and provide opportunities for higher incremental returns in the long-term. The objective is to maximize investment return over a market cycle by investment in real estate through REITs.
REIT equity manager performance parameters include the following:

- Exceed National Association of Real Estate Investment Trusts (NAREIT) Equity REIT Index.
- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the NAREIT Equity REIT Index without a corresponding increase in performance above the index.
- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle of the REIT market.

b.) Private Real Estate

Private real estate investments are expected to improve total portfolio diversification and provide income and opportunities for higher incremental returns in the long-term. The objective is to maximize investment return over a market cycle by investment in real estate through private ownership. These private real estate investments should generate investment returns exceeding those of a passively managed private real estate index.

Private real estate investment performance parameters include the following:

- Exceed the National Council of Real Estate Investment Fiduciaries (NCREIF) Index.

- Performance comparable to the Barclays Capital Aggregate Bond Index

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) must not exceed that of the NCREIF Index or the Barclays Capital Aggregate Bond Index without a corresponding increase in performance above the index.

- Achieve the above objectives within a time horizon of five to ten years or a full real estate market cycle.

B. <u>Funds of Hedge Funds (FofHFs)</u>

FofHFs are private investment funds investing primarily in the global equity and fixed income markets typically employing sophisticated trading strategies using leverage and derivative instruments. FofHFs invests in multiple, single manager hedge funds. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The FofHFs manager has discretion in choosing which strategy to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiples strategies. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers. This type of investment instrument will be considered by the consultant and suggestions for their use will be brought before the Board for discussion at times when the consultant deems appropriate.

C. <u>Master Limited Partnerships (MLPs)</u>

Master Limited Partnerships (MLPs) are utilized to provide additional income to the portfolio. They are expected to provide increasing income over time.

MLP manager performance parameters include the following:

- Performance comparable to the Alerian MLP Index.

- The risk associated with the manager's portfolio as measured by the variability of quarterly returns (standard deviation) should not exceed that of the comparison index without a corresponding increase in performance above the index.

- Achieve the performance parameters within a time horizon of a minimum of three to five years or a full market cycle.

V. STATE MANDATED REQUIREMENTS

1. EXPECTED ANNUAL RATE OF RETURN. The desired investment objective is a long-term rate of return on assets of 7.50%. The target rate of return is for the current year, for each of the next several years and for the long-term thereafter or as changed by the Board. The target rateof return has been based on the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the Investment Guidelines. Because market performance varies and a fixed percent return may not be meaningful during some periods, the Board has established performance benchmarks for Managers, as set forth in the Internal Controls section of this Investment Policy. Over a complete business cycle, the Plan's overall annualized total return, after deducting investment and transaction costs, should perform above the median of an appropriate universe and above a customized index composed of various market indices weighted by the strategic asset allocation of the Plan's assets.

2. THIRD-PARTY CUSTODIAL AGREEMENTS. The securities should be held with a third party, and all securities purchased by, and all collateral obtained by, the board should be properly designated as an asset of the board. No withdrawal of securities, in whole or in part, shall be made from safekeeping except by an authorized member of the board or the board's designee. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

3. MASTER REPURCHASE AGREEMENT. All approved institutions and dealers transacting repurchase agreements shall execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to requirements of the Master Repurchase Agreement (where applicable).

4. BID REQUIREMENT. The board shall determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the most economically advantageous bid must be selected.

5. INTERNAL CONTROLS. The attached system of internal controls and operational procedures has been adopted by the Board and shall be reviewed by its independent certified public accountants as part of any financial audit of the Plan.

6. CONTINUING EDUCATION. All Board members are encouraged and expected to attend continuing education seminars concerning matters related to investments and responsibilities of Board members. Without limiting the foregoing, Board members are

pre-authorized to attend any in-state seminars. Attendance at out-of-state seminars requires prior Board approval.

7. REPORTING. The Board shall submit an annual report to the Town of Longboat Key. The report shall include investments in the portfolio by class or type, income earned and market value. The annual report shall be available to the public.

8. FILING OF INVESTMENT POLICY. Upon adoption by the Board, this Investment Policy shall be promptly filed with the Florida Department of Management Services, the Town of Longboat Key and the Actuary. The effective date of this Investment Policy, and any amendment hereto, shall be 31^{st} calendar day following the filing date with the City.

9. VALUATION OF ILLIQUID INVESTMENTS. Illiquid investments for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism shall be valued in accordance with Section 215.47(6), Florida Statutes, when those investments are utilized. Any asset without a fair market value shall be excluded from the determination of annual funding costs. The Board shall notify the Florida Department of Management Services and the City Auditor and Clerk of the Town of Longboat Key of each such asset.

VI. REVIEW OF INVESTMENT MANAGERS

The Board will meet at least quarterly with the consultants and review investment results..

These reviews will focus on:

- the managers' adherence to the policy guidelines;

- comparison of managers' results against funds using similar policies (in terms of the diversification, volatility, and style);

- the opportunities available in both equity and debt markets; and
- material changes in the managers' organizations, such as philosophical and personnel changes, acquisitions or losses of major accounts, etc.

VII. PERFORMANCE EXPECTATIONS

The most important performance expectation is the achievement of investment results that are consistent with the Plan's investment policy statement. A 3.0% real return is a reasonable expectation in light of this policy. The Board recognizes that this real return objective may not be attainable during some time periods, but it is a long term goal. In order to ensure that investment opportunities available over a specific time period are fairly evaluated, the Board will use comparative performance statistics to evaluate investment results. Performance of the Plan will be compared to other funds utilizing a similar investment policy.

VIII. POLICY REVIEW

Periodic reviews of the Policy Statement will be made by the Board to evaluate its appropriateness. Any modification of policy guidelines shall be approved by the Board of Trustees and acknowledged in writing by the investment managers.

Adopted ________________________ Signed ______________________________________