Statement of Investment Policy & Objectives

City of Boca Raton
Police & Firefighters' Retirement System

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I. Statement of Policy

Purpose

This document shall serve as the official communication regarding the investment practices of the City of Boca Raton Police and Firefighters' Retirement System (the "Retirement System"). All parties described herein shall perform their duties as fiduciaries of the plan and in accordance with the standards of the Prudent Man Rule, the Florida Protection of Public Employees Benefit Act, Florida law, and the Boca Raton Code.

This policy shall apply to all funds under the control of the Board of Trustees.

Investment Goals

While both absolute and relative measures of investment performance should be monitored, the primary emphasis will be focused on absolute performance. The broad investment goal of the Retirement System is to earn a rate of return after all expenses that equals or exceeds the actuarial investment rate assumption. The Trustees, with help from the actuary and investment consultant, will use the Retirement System's asset allocation as the primary tool to achieve this goal. As this is a long-term projection and investments are subject to short term volatility, the main investment review focus of the Trustees towards the Retirement System and each investment manager will be on performance relative to asset class and peer performance over the relevant time periods. Each manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style and add incremental value after costs.

II. Investment Responsibilities

There are several parties acting as fiduciaries for the Retirement System. This document will set out specific duties and responsibilities for the investment-related parties as they carry out their specific roles towards achieving the objectives of the Retirement System.

Board of Trustees

The Board of Trustees has the responsibility for managing the investment process. In fulfilling this responsibility, the Board of Trustees will establish and maintain investment policies and objectives. Within this framework, the Board of Trustees will select, monitor, and evaluate the investment consultant, investment managers, bank custodian, and other parties to ensure that actual results meet objectives.

The Board in performing its investment duties shall comply with the fiduciary standards set forth in ERISA. In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

All trustees are encouraged and expected to attend continuing education seminars concerning matters related to investments and responsibilities of Board members. Attendance at two public pension fund seminars during each term of office is suggested.

Investment Consultant

The investment consultant's job is to act as a fiduciary working with the Board of Trustees to manage the investment process. This includes meeting regularly with the Board of Trustees to provide perspective as to the Retirement System's goals, structure and the investment management team. The consultant will work with the Board of Trustees to develop and maintain a properly diversified portfolio.

Asset allocation and performance will be regularly reviewed and recommendations will be made as they are appropriate. The consultant will assist the Board of Trustees in the area of investment manager selection, when needed, and will promptly inform the Board of Trustees and discuss the impact of material changes taking place within any current manager's investment process.

Investment Managers

The investment managers are named fiduciaries of the Retirement System who have acknowledged that they are fiduciaries with respect to the Retirement System who will construct and manage investment portfolios consistent with the Investment Guidelines adopted by the Board of Trustees. They will select specific securities, buy and sell such securities, and modify the asset mix within the guidelines. The Board of Trustees believes that investment decisions are best made when not restricted by excessive procedure. Therefore, full discretion is delegated to the investment managers to carry out investment policy within stated guidelines. They will also allocate brokerage commissions and use only acceptable investment vehicles as defined in this statement. In regards to allocating commissions, each manager must make every effort when trading securities to do so on a best execution basis. More detailed investment manager responsibilities are outlined in a later section.

Custodian

The custodian(s) will hold all cash and securities, and will regularly summarize these holdings for the Board of Trustees' review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment manager, and to invest such cash in liquid, interest-bearing instruments.

Third-Party Custodial Agreements. 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 to insure that the custodian will have the security or money in hand at conclusion of the transaction. All securities purchased and all collateral obtained will be properly designated as an asset of the System.

Repurchase Agreements. Repurchase agreement collateral must be held by an authorized custodian. All approved institutions and dealers transacting repurchase agreements must execute a master repurchase agreement. All repurchase agreement transactions must then adhere to the requirements of that agreement.

III. Permissible Investments

The portfolio will be invested in marketable securities. Listed below are the investment vehicles specifically permitted. They are categorized as equity, fixed income or real estate to indicate how they are classified for purposes of the asset-mix guidelines.

Equity
* Common Stocks
* Convertible Preferred Stocks
* Convertible Bonds

Fixed Income
* Bonds
* Mortgages & Mortgage-backed securities
* Preferred Stocks
* Cash-Equivalent Securities

Real Estate
* Equity Real Estate

- The above assets can be held in commingled funds as well as managed separate accounts. Assets held in commingled funds should be managed in a style/strategy consistent with the fund's stated objectives and constraints.

- *Cash equivalent securities* include U.S. treasury bills, commercial paper, certificates of deposit or savings accounts of a national bank insured by the Federal Deposit Insurance Corporation, short term investment funds (STIF) provided by the custodian, money market mutual funds limited to obligations of the U.S. Government or its agencies, and repurchase agreements fully collateralized by obligations of the U.S. Government or its agencies.

- Private placement bonds are not permitted. However, Rule 144A securities of U.S. issuers with registration rights are permitted, as an exception, in the fixed income portfolio, subject to a 5% limit at market value.

- The investment managers shall not invest in *illiquid investments* for which a generally recognized market is not available, or for which there is no consistent or generally accepted pricing mechanism. All investments must be traded on a national securities exchange. This section shall not apply to investment in equity real estate or commingled funds whose primary purpose is to invest in equity real estate.

- *Foreign securities*. The market value basis of foreign securities shall not exceed 25% of the total market value of assets of the fund. A foreign security is defined as a security issued by a corporation that is not organized under the laws of the United States Government, any U.S. state government, or the District of Columbia, or domiciled outside of the United States. Such securities organized under the laws of foreign governments shall be considered foreign securities, regardless of whether they are traded on a national securities exchange, regardless of the ownership of the foreign corporation and regardless of whether the security is denominated in United States dollars. Commingled funds containing any securities defined hereunder as foreign securities shall also, themselves, be considered as foreign securities. The following foreign securities are permitted:

    - The Non-U.S. Equity manager retained by the Retirement System will invest primarily, if not exclusively, in foreign equity securities.

- Investment in foreign securities, including American Depository Receipts (ADRs), is permitted for Domestic Equity managers subject to certain limitations as follows:

  - Domestic equity managers are permitted to invest up to 12½% of the market value of their respective portfolios in sponsored ADR's and other foreign stocks listed on the New York Stock Exchange or the NASDAQ. The minimum market capitalization for such securities shall be $5 billion for the large cap managers and $200 million for the small cap manager unless the security is a constituent of the benchmark.

  - Domestic equity managers shall develop, implement and enforce appropriate screens to detect any such foreign securities, as defined herein, and the consultant shall also review each manager's portfolio to assure compliance with the Investment Policy and Objectives. Should an investment manager invest in any unauthorized foreign securities, as defined herein, the investment manager, upon being notified or informed of the same, shall immediately liquidate said securities and reimburse the Retirement System for any loss realized (which shall be the difference between the investment return on the foreign security, from the time it was purchased until it was sold, compared to the overall investment return on that manager's portfolio during the same time period.

- The Global Long/Short Equity commingled fund is permitted to invest in non-U.S. securities. The percentage of non-U.S. securities will be monitored by the Investment Consultant and counted toward the 25% of the total funds market value limitation for foreign securities.

- The fixed income manager is permitted to invest up to 10% of the market value of the fixed income portfolio in Yankee securities (foreign issuers of dollar-denominated debt).

- The Board must identify and publically report any direct or indirect holdings it may have in any scrutinized company in accordance with the provisions of the Protecting Florida's Investment Act. The Board may not purchase and must divest any direct holdings it may own in any scrutinized company no later than September 30, 2010. The Florida State Board of Administration publishes a list of scrutinized companies quarterly. The Investment Consultant will quarterly identify and report any direct securities held in scrutinized companies requiring divestment by an investment manger. Indirect holdings are excluded from required divestiture. However, investment managers of commingled funds will be requested to consider removing such companies from the fund or create a similar actively managed fund having indirect holdings devoid of such companies.

While the above list classifies assets at a total plan level, individual managers shall invest in only those securities allowed in their written investment agreements.

IV. Asset Allocation

The Board of Trustees believes that the level of risk assumed in the Retirement System is a function, in large part, of the Retirement System's risk posture. The proportion of assets allocated for equity investments is the most important determinant of volatility of future returns. As indicated by long-term historical data, the risk of equity ownership has been rewarded with a higher rate of return.

Based on its determination of the appropriate risk posture for the Retirement System and its long-term return expectations, the Board of Trustees with the advice and recommendation of the investment consultant, have established the asset-mix on the following page for the Retirement System.

Asset Class	Target Asset Mix	Range
Equity Investments	**70%**	**65% - 75%**
Domestic Large Cap:	30%	25% - 35%
Large Cap Core Equity (15%; range 10%-20%)		
Large Cap Growth Equity (7.5%; range 5%-10%)		
Large Cap Value Equity (7.5%; range 5%-10%)		
Domestic Small Cap	10%	5% - 15%
Small Cap Growth Equity (5%; range 0%-10%)		
Small Cap Value Equity (5%; range 0%-10%)		
Long/Short Equity	15%	10% - 20%
Non-U.S. Equity	15%	10% - 20%
Fixed-Income Investments	**20%**	**15% - 25%**
Real Estate	**10%**	**0% - 12%**

The Board of Trustees, supported by recommendations of the investment consultant, is responsible for broad asset allocation decisions. A manager's cash can disrupt this position. Therefore, each manager's portfolio is to be fully invested at all times, although cash can be held briefly when a security is sold prior to deciding which new security should be purchased. Equity fund managers will be as fully invested in equities as prudence will dictate. Therefore, it is the Board's position that except in very unusual circumstances, the cash exposure of the equity managers should not exceed 5%. If it is proposed to exceed 5%, then the manager shall immediately advise the Board, by facsimile to its administrative office, and justify that position.

Rebalancing

Rebalancing to target allocations shall be considered each October based on the September 30 portfolio market values. If the imbalance between the broad asset classes of equity, fixed income and real estate exceeds a 5% tolerance band, then the Board shall consider adjusting the allocation to target ranges. The Investment Consultant is responsible for providing the Investment Committee with a recommendation to rebalance the portfolio based upon the pre-determined target allocation ranges, the System's current allocation relative to those targets, and the cost of reallocation. Based upon the recommendation of the Investment Committee, the Board shall take any appropriate action to effect the asset re-balancing within a reasonable period of time. This provision is not meant to preclude rebalancing at any other time upon a recommendation by the Investment Consultant. Upon receipt of the state contributions, the Investment Consultant shall make an investment recommendation based on a preliminary rebalancing assessment.

The illiquid nature of the System's real estate portfolio requires different rebalancing methods for this asset class. Given the nature of investments in certain limited partnership structures that call down money over time and then begin a self liquidation process, the System may never be fully allocated to real estate. It is usually possible to sell institutional limited partnership interests only at a substantial discount to their underlying asset value. Accordingly, it is the Board's policy not to sell limited partnership interests for rebalancing purposes. Instead, the Board's primary mechanism for achieving and maintaining its target allocation to real estate shall be an annual real estate strategy review. The annual real estate strategy review shall include a "budget" for new commitments to core, value added and opportunistic real estate investment strategies. The budgeted amounts shall be based on current investments, current commitments, and anticipated appreciation and distributions, vis-à-vis the current and anticipated size of the total System. Should the allocation to real estate fall outside the target allocation range, it will be gradually rebalanced by adjusting the annual budget for new commitments.

V. Investment Performance Guidelines & Monitoring

Fixed Income Portfolio:

Fixed Income Guidelines

Eligible Holdings

- The portfolio will be invested exclusively in fixed-income securities, as described in Section III "Permissible Investments".

Portfolio Structure

- The fixed income strategy shall be structured as a "core plus" fixed income portfolio. The fixed income manager will have complete discretion to determine the proper asset allocation within the parameters established below:
  - Core (80% – 100%): U.S. Government securities, investment grade corporate bonds and mortgage-backed securities.
  - Plus (0% - 20%): High yield bonds

Limitations / Diversification

- Obligations of the U.S. Government or U.S. Government agencies may be held in any amount.
- Corporate bonds, which are obligations of U.S. corporations, shall be diversified by issuer type (i.e. by industry such as utility or financial.). No more than 5% of the portfolio shall be invested in the obligation of any one issuer, with the exception of U.S. Government securities.

- The portfolio shall be required to maintain a weighted average credit quality rating of "A" or higher.
- The original issue size of the securities selected should be such to afford a high degree of marketability.
- In order to adequately diversify the portfolio, the manager may indirectly invest in a strategy by acquiring interest in a commingled investment vehicle (limited partnership or mutual fund) managed by the manager or its affiliates, which has an investment objective of investing primarily in a particular asset class.
- If subsequent to purchase, the quality rating of an individual fixed income security is lowered to below investment grade by any of the rating agencies, that security will be aggregated with any and all other fixed income exposure in below investment grade securities for the purposes of compliance with policy guidelines pertaining to such exposure. It shall be the manager's discretion to sell either the individual security or interests in commingled funds necessary to maintain the policy with respect to the maximum allowable exposure to below investment grade securities.

Fixed Income Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for the portfolio:

- The total return of the portfolio should exceed the return of the Barclays Capital Aggregate Bond Index.
- The total return of the portfolio should rank median or higher over a full market cycle when compared to the appropriate peer group of managed fixed income portfolios.
- The total return of the portfolio should rank median or higher in at least two of each consecutive three rolling 12-month intervals when compared to the appropriate peer group of managed fixed-income portfolios.
- In addition to relative rates of return, each portfolio's performance will be evaluated based on its relative risk profile as measured by its standard deviation, beta, correlation to the relevant index; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Domestic Equity Portfolio:

Domestic Equity Guidelines

Eligible Holdings

- The portfolio will be invested in marketable securities. Restricted or letter stock are not permitted.

Diversification

- The diversification of the equities held in the portfolio among industries and issuers is the responsibility of the investment manager.
- Large cap equity manager sector exposures are not to exceed the lesser of:
  - 35% at market value of the equity manager's total portfolio; or

- 1.5 times the relevant style benchmark weighting, as classified by the investment consultant. In the event a sector represents 10% or less of the respective style benchmark, the maximum sector weight is 10% plus the current sector weight. Example: sector weight is 2.6%, then the maximum sector weight would be 2.6% + 10% = 12.6%. Note: Sector exposure limits shall not apply to the INTECH portfolio as INTECH's risk control guidelines are established solely at the security level.

- Small cap equity manager's sector exposures are not to exceed the lesser of:
  - 50 % at market value of the equity manager's total portfolio; or
  - 15% deviation from the sector weighting of the relevant style benchmark, as classified in this Policy Statement in the section entitled Appendix-Benchmarks. .

- Individual holdings are not to exceed 5% of the total equity portfolio at market value except that Domestic Equity Managers shall be allowed to invest in any one individual holding to the extent of the benchmark weighting plus 1%.
  - Not more than 5% of the market value of plan assets shall be invested in the securities of any one issuing company.
  - The aggregate investment in one issuing company shall not exceed 5% of the outstanding stock of the company.

- Holdings or exposures in excess of these percentages shall be reported in writing to the Board of Trustees and shall be systematically reduced by the investment manager in a manner consistent with maximizing the return to the fund consistent with safety of principal.

Style Adherence

- The most important feature any individual manager brings to a multi-manager portfolio is style adherence. Quarterly, fundamental portfolio characteristics and style benchmark comparisons will be monitored for adherence to a manager's identified style.

Domestic Equity Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should exceed the total return of the relevant index referenced in the appendix.

- The total return of each portfolio should rank median or higher over a full market cycle (usually 3-5 years) when compared to the appropriate peer group of domestic equity portfolios.

- The total return of each portfolio should rank median or higher in at least two of each consecutive three rolling 12-month intervals when compared to the relevant peer group.

- In addition to relative rates of return, each portfolio's performance will be evaluated based on its relative risk profile as measured by its standard deviation, beta, correlation to the relevant index; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Non-U.S. Equity Portfolio

Non-U.S. Equity Guidelines

The portfolio will be invested in Non-U.S. equity securities of both developed and emerging market countries primarily through commingled investment funds.

- If a manager is operating a commingled fund, it is expected that the manager will adhere to the stated guidelines for that fund. If there are ever any deviations from the original guidelines, the Board expects to be advised of the change prior to being made.
- Equity securities shall be of non-U.S. issues (including ADRs, convertible bonds, and U.S. registered securities) whose principal markets are outside of the U.S.
- The managers will broadly diversity across country markets utilizing medium to large capitalization companies.
- While there are no percentage limits in regard to country weighting, the managers should use prudence and reasonable good judgment.

Non-U.S. Equity Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should exceed the total return of the relevant index referenced in the appendix.
- The total return of each portfolio should rank median or higher over a full market cycle (usually 3-5 years) when compared to the appropriate peer group of international equity portfolios.
- The total return of each portfolio should rank median or higher in at least two of each consecutive three rolling 12-month intervals when compared to the relevant peer group.
- In addition to relative rates of return, each portfolio's performance will be evaluated based on its relative risk profile as measured by its standard deviation, beta, correlation to the relevant index; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Long/Short Equity Portfolio

Long/Short Equity Guidelines

The portfolio will be implemented through a global fund of funds approach. The manager will have complete discretion to determine the proper asset allocation among equity-oriented strategies within the bounds of the following limitations:

- Equity-oriented strategies shall include primarily fundamental long/short equity managers, but may also include other primarily equity-oriented hedge fund strategies at the manager's discretion.

- The manager is expected to prudently diversify the portfolio across market capitalization, geography, industry/economic sectors, number of managers and size of positions.

Long/Short Equity Performance Objectives

Primary emphasis is to be placed on positive absolute rates of return with low correlation to the long-only equity markets. The portfolio should be managed in a style that will provide less volatility in returns than the broad long-only equity markets so as to provide protection in down markets but allow participation in up markets. Over a market cycle (usually 3-5 years), the following are the performance expectations for the portfolio:

- The total return of the portfolio should produce returns similar to that of the broad equity markets.
- The portfolio should generate less than one half of the annualized volatility than that of the S&P 500 Index.
- The portfolio should maintain a low relative correlation to equity and fixed income markets.
- The risk and return of the portfolio will be compared to the risk and return of the S&P 500 Index.

<u>**Real Estate Portfolio**</u>

Real Estate Guidelines

The portfolio will be invested in real estate primarily through commingled investment funds (Real Estate Investment Trusts or Real Estate Funds).

- If a manager is operating a commingled fund, it is expected that the manager will adhere to the stated guidelines for that fund. If there are ever any deviations from the original guidelines, the Board expects to be advised of the change prior to being made.
- Investments in real estate properties will be broadly diversified by geography, by property type and the number of properties.

Real Estate Performance Objectives

Open Ended Funds. Primary emphasis is to be placed on relative rates of return. Over a market cycle (usually 3-5 years), the following are the performance expectations for each portfolio:

- The total return of each portfolio should exceed the total return of the relevant index referenced in the appendix.
- The total return of each portfolio should rank median or higher over a full market cycle (usually 3-5 years) when compared to the appropriate peer group of equity portfolios.
- The total return of each portfolio should rank median or higher in at least two of each consecutive three rolling 12-month intervals when compared to the relevant peer group.

- In addition to relative rates of return, each portfolio's performance will be evaluated based on its relative risk profile as measured by it standard deviation, beta, correlation to the relevant index; risk adjusted returns as measured by the portfolio's Sharpe ratio and performance in up and down markets.

Closed End Illiquid Funds. Closed end real estate limited partnership investments shall be expected to meet the following objective over a 5-7 year time period:

- Internal rate of return for mature portfolios of NCREIF + 200 basis points.

<u>Monitoring of Performance</u>

Investment Managers

Investment managers are required to manage the assets in accordance with the policy guidelines and objectives expressed herein. No deviation is permitted unless the ability to do so is given in a separate written agreement. The investment manager shall comply with the fiduciary responsibility standards and requirements of the "Prudent Man" rule as well as applicable Florida state statutes and City of Boca Raton ordinances. Investment managers provide periodic reporting to evaluate performance and compliance with the investment policy.

Immediate Reporting. Immediate communication with the Board is required for material events:

- Promptly informing the Board of Trustees regarding all significant matters pertaining to the investment of the assets. The Board of Trustees should be kept apprised of major changes in investment strategy, portfolio structure, market value of the assets, and other matters affecting the investment of the assets. The Board of Trustees should also be informed promptly of any significant changes in the ownership, affiliation, organizational structure, financial condition, or professional personnel staffing of the investment management organization.
- Initiating written communication with the Board of Trustees whenever the investment manager believes that this Statement of Investment Policy and Objectives should be altered.

Quarterly Reporting. The investment manager shall provide the following information at a minimum on a routine basis as part of its quarterly report to the Board of Trustees:

- Summary of portfolio transactions, including detail on commissions and brokers used
- Portfolio asset listing with detail of cost and market by issue
- Proxy-voting report.
  - The investment manager shall have complete discretion with respect to the voting of proxies. All proxies are to be voted solely to promote the long-term financial strength of the Retirement System

Annual Reporting. On an annual basis, the investment manager shall at a minimum provide the following information for review by the Board of Trustees:

- A copy of its proxy voting policy
- Copy of firm's policy regarding soft-dollars
- Copy of firm's ADV report

Investment Consultant

Reports from the investment consultant are used to evaluate the performance of the total plan and each investment manager. On at least a quarterly basis, the investment consultant shall present a monitoring report showing total fund asset allocation and performance as well as individual manager performance. Monthly, the investment consultant shall provide the total plan rate of return.

VI. Watch List Procedures

Investment Consultant

An Investment Manager who fails to meet expectations in any of the areas established in the preceding Section V, may, at the recommendation of the Investment Consultant, be placed on a watch list. An Investment Manager who meets its objectives can still be placed on a Watch List in the event of any material change including, but not limited to, the following:

- There is a significant change in the ownership or control of the Investment Management Firm.
- There is a significant change in the Investment Manager's process or philosophy.
- The departure from the Investment Management Firm of the portfolio manager responsible for this strategy or other key or responsible personnel.
- Any pending litigation or SEC or other state or federal regulatory agency investigation or action.

The Investment Consultant shall report to the Board on a quarterly basis listing any Investment Managers who have been added to or removed from the Watch List during the preceding quarter as well as those Investment Managers who remain on the Watch List. This report shall also state the reasons why the Investment Manager was added to or removed from the Watch List, the status of the watch and any other relevant information relating to the matter. The Board can add or remove Investment Managers from the Watch List at its discretion.

If an Investment Manager is placed on the Watch List, as a courtesy to the Investment Manager the Board may, but is not obligated to, send a written notice to the Investment Manager stating that the Investment Manager has been placed on the Watch List and detailing the reasons why.

Termination

The Board has the power to terminate an Investment Manager, with or without cause and whether or not the Investment Manager appears on the Watch List, on thirty (30) days notice or as soon as practicable according to the provisions of the agreement with the Investment Manager, and nothing in these Investment Guidelines should be read to limit that power.

If the Board elects to terminate the Investment Manager, it shall send a notice of termination to the Investment Manager (pursuant to the terms of the Investment Management Agreement) stating that the Investment Management Agreement between the System and the Investment Manager shall be terminated on a date not less than thirty (30) days from the date of the notice or as soon as practicable according to the provisions of the agreement with the Investment Manager.

VII. Total Pension Fund Objectives

Both relative and absolute results will be considered in the evaluation of the total Retirement System's performance. The following are the performance expectations for the Retirement System:

- The Retirement System's annualized total return should equal or exceed the Retirement System's actuarial interest rate assumption, currently 8%, measured over a five-year period.

- Over a three-year period, the Retirement System's total return should exceed the total return of an index composed as follows:

  45% Standard & Poor's 500 Index
  10% Russell 2000 Index
  15% MSCI ACWI ex U.S.
  20% Barclays Capital Aggregate Bond Index
  10% NCREIF Index

- Over a three year period, the Retirement System's total return should exceed the total return of the median plan in the consultants peer group universe.

The Total Fund allocation index shall be constructed in such a manner as to reflect the various equity allocations that have been adopted over time. The Board replaced the Small Mid Cap Core manager and hired one Small Cap Growth and one Small Cap Value manager to manage the Fund's US small cap assets during November 2013. The 10% small cap allocation target remained unchanged.In April 2000 the Board revised the equity diversification to include Small Cap domestic equities and International equities, with initial funding of $5 million to each of these new assignments. The Board revoked the allocation to a dedicated International Equity manager in December 2001 and reinstated a dedicated International Equity manager in January of 2007. The Board revised the target equity allocation from 70% to 75% in July 1998. The bond index used in calculating the allocation index was modified to reflect the Barclays Capital Aggregate Bond Index effective October 1, 1998 (formerly, Lehman Brothers until 2008). Prior to October 1, 1998, the bond index used for the evaluation purposes was the Lehman Government/Corporate Bond Index.

Actuarial Rate of Return Assumption. For each actuarial evaluation, the Board shall determine the total expected annual rate of return for the current year, for each of the next several years and for the long term thereafter. This determination must be filed promptly with the Department of Management Services and with the plan sponsor and consulting actuary. For purposes of this requirement, the Board has adopted the actuarial assumption as its expected rate of return.

VIII. Evaluation & Review

Investment Results. On a timely basis, but not less than once annually, the Board of Trustees will review actual investment results achieved to determine whether:

- The investment managers performed in accordance with the policy guidelines set forth herein.

- Asset allocation remains reasonable and each manager's securities selection decision making process remains constant with the style and methodology represented by the manager and originally hired by the Board of Trustees.

- The investment managers performed satisfactorily when compared with:
  - the objectives stated herein, as a primary consideration,
  - other fund managers, and
  - recognized market indices.

- Review commissions generated, commission rates charged and firms used by the investment managers.

Investment Policy. At least once annually, the Board of Trustees will formally review this Statement of Investment Policy & Objectives to determine whether it continues to be appropriate in light of the Retirement System's investment philosophy and objectives, and changes in the capital markets and/or Retirement System's structure. The Board reserves the right to make changes to this policy as it deems necessary and appropriate.

Filing of Policy. Upon adoption by the Board, the investment policy shall be promptly filed with the Department of Management Services, plan sponsor and consulting actuary. The effective date of the investment policy and any amendment thereto shall be the 31st calendar day following the filing date with the plan sponsor.

IX. Compliance

Reporting. Following the end of the fiscal year and completion of the financial statements, the City of Boca Raton shall be provided with a report that will include a list of investments in the portfolio by class or type. The report shall show market value and income earned. Such report is a public record and will be made available upon request.

Internal Controls. All investment activity has been delegated to professional investment managers and all securities are held in trust with a custodian. As a result, the individual trustees and employees of the Board do not have access to or control of the investments. A withdrawal of funds from the custodial account requires dual authorized signatures, one of which must be a Board member. A repetitive transfer of funds to the System's checking account for the payment of benefits and expenses or to another manager account within the System's group of funds requires one authorized signature.

The Board maintains a $300,000 fidelity bond and a $7.5 million fidelity liability insurance policy. Independent certified public accountants review the internal controls and operational procedures as part of the annual financial audit of the System. The Board approves benefit payments and System expenses. These are listed on a Warrant that is subject to approval at each Board meeting.

Appendix - Benchmarks

Within market cycles, we recognize that styles with broad market categories go into and out of favor. Therefore, short-term examination of each manager's performance will focus on style adherence, style peer comparisons and style benchmarks. The following are the references the Board of Trustees will use on a quarter-by-quarter basis to monitor each manager.

Equity Managers

Over a market cycle the long-term objective for each equity manager is to add value after expenses to a broad market benchmark. The broad benchmarks are as follows:

	Benchmark
Large Capitalization Domestic Equity Managers	S&P 500
Small Capitalization Domestic Equity Manager	Russell 2000
International Equity Managers	MSCI EAFE
Emerging Market Equity Managers	MSCI EM Free
Global Long /Short Equity Manager	S&P 500
Real Estate Managers	NCREIF

Manager	Style	Peer Sample	Style Benchmark
Sawgrass	Large Cap Growth	Large Cap Growth	Russell 1000 Growth
Barrow Hanley	Large Cap Value	Large Cap Value	Russell 1000 Value
Intech	Large Cap Core	Large Cap Core	S&P 500
Cortina	Small Cap Growth	Small Cap Growth	Russell 2000 Growth
Mutual of America	Small Cap Value	Small Cap Value	Russell 2000 Value
Lazard Int'l	International Equity	International Developed	MSCI EAFE
Vontobel	Emerging Market Equity	Emerging Market	MSCI EM Free
Private Advisors	Global Long/Short Eq	HFRI Strategic	S&P 500

Real Estate Managers

Manager	Style	Peer Sample	Style Benchmark
JP Morgan	Strategic Property Fund	Real Estate	NCREIF ODCE
GEAM Value Add Realty Partner I, LP	Value Add Real Estate	N/A	NCREIF

Fixed Income Managers

Manager	Style	Peer Sample	Style Benchmark
Barrow Hanley	Core Plus	Core Bonds	Barclays Capital Aggregate