

**City of Jacksonville, Florida
Police and Fire Pension Fund
Statement of Investment Policy
(The Investment Plan)**



Approved by Board of Pension Trustees

December 20, 2012

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(The Investment Plan)
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JACKSONVILLE POLICE AND FIRE PENSION FUND
Statement of Investment Policy

I. INTRODUCTION AND PURPOSE:

A. INTRODUCTION:

The Jacksonville Police and Fire Pension Fund (hereinafter referred to as the "Fund" or the "PFPF") is a contributory defined benefit pension plan established under Section 401(a) of the Internal Revenue Code, as amended. The Fund is administered by a Board of Pension Trustees (the "Board", "Pension Trustees" or "Trustees") which has the fiduciary responsibility for the Fund's administration, the investment of its assets, and the management of its operations. The purpose of the Fund is to provide long-term benefits to the Fund's participants and their beneficiaries. In recognition of its responsibility, the Board has adopted this Statement of Investment Policy, including the Goals and Guidelines related therein (the "Investment Policy", "Policy", "Policy Statement" "Policies", "Statement", Investment Plan", or the "SIP").

The purpose of this document is to communicate, in writing, the investment objectives and guidelines established by the Board of Trustees of the Fund as they pertain to the Fund. It is intended to provide the Board, the City's Treasurer, the Fund Administrator and investment staff, the Investment Consultant, the Investment Managers and the Custodian Bank a clear and accurate understanding of all investment objectives, investment guidelines and the criteria by which investment performance will be evaluated. The guidelines and objectives provided herein are intended only to complement applicable sections of Chapter 18615, Laws of Florida, Acts of 1937, Sections 112.661, 215.47 and 518.11 of the Florida Statutes, Article 22 of the City Charter, Chapter 121 of the Ordinance Code of the City of Jacksonville and any other applicable ordinances, statutes or judicial rulings. If at any time this document is found to be in conflict with such ordinances, statutes or judicial rulings, the conflicting ordinances, statutes or judicial rulings shall prevail.

Although the Board of Trustees acknowledges that the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), does not apply to the Fund as a governmental retirement plan, it hereby adopts the fiduciary provisions of ERISA. The Board, the Fund's staff and the Fund's service providers shall discharge their responsibilities in the same manner as if the Fund were governed by the fiduciary responsibility provisions of ERISA.

The investment policies set forth in this document were established after a thorough review of the unique needs and circumstances of the Fund and a careful evaluation of the risk and potential returns expected from various mixes of stocks, bonds, real estate, cash equivalent securities and other permissible assets. It is the Board's intention that the investment policies herein be sufficiently specific to be meaningful but adequately flexible to be practical. Responsible parties shall not deviate from these Policies without the written permission of the Board, subject to legal limitations.

A set of Investment Manager Instructions (the "Instructions") may be developed by the Fund's Investment Consultant for one or more Investment Manager(s) and approved by the Board on a case by case basis without the need to undertake a formal modification to the SIP. Such instructions will contain the manager's benchmark by which the manager's performance is measured, any internal account restrictions or limitations, and any necessary exceptions to the Policy. The Board may periodically approve changes or permit exceptions to this Policy in order to maintain flexibility in the investment of the Fund's assets, adjust to changes in the capital markets, or take advantage of market opportunities. Such changes or exceptions will be noted in the Instructions or amendments to this Policy. See Exhibit F for an illustration of Investment Manager Instructions for a sample Investment Manager.

B. PURPOSE:

1. The basic purpose of this Statement of Investment Policy is to assist the Pension Trustees in their efforts to effectively supervise and monitor the investment of the assets of the Police and Fire Pension Fund.
2. This Statement documents the Board's attitudes, expectations, philosophy, and objectives in the investment of Fund assets.
3. This Statement provides a framework for establishing and carrying out a funding policy consistent with the investment objectives of the Fund.
4. This Statement demonstrates that the Trustees have given adequate consideration to the development of an appropriate program of investments and have thereby fulfilled the requirements of prudence within their fiduciary responsibilities.
5. This Statement outlines a general framework within which the Investment Managers of the Fund are expected to exercise investment judgment and the basis for evaluating the performance of each Investment Manager.
6. This Statement enhances the level of communications between the Fund and the Investment Managers as they are better informed concerning the basic goals, objectives and operating parameters of the Fund.
7. This Statement provides guidelines for the management of each investment portfolio that place controls on the level of risk (or volatility of returns) and thereby contributes to the expectation that assets will be managed in accordance with stated goals, objectives and operating parameters of the Fund.
8. This Statement sets forth an investment structure for managing assets and describes the role and expectations of each Investment Manager.

II. GENERAL:

Investments of the Police and Fire Pension Fund have historically been administered in accordance with applicable state laws and statutes as well as local ordinances, resolutions and charter provisions which are generally represented by the following:

1. Section 4, Chapter 18615, Laws of Florida, Acts of 1937, as amended. These provisions are described in Exhibit E, Section A.
2. Sections 175.071 and 185.06, Florida Statutes, provide investment guidelines and authorizations for firefighter and municipal police officers pension trust funds, respectively. These authorizations expanded upon the authorized classes of investments reflected in the 1937 Special Act of the Legislature, as amended. These provisions are described in Exhibit E, Section B.
3. Section 22.04(b) of the City Charter (Chapter 92-341, Laws of Florida and Chapter 94 - 466, Laws of Florida), as amended. These provisions are described in Exhibit E, Section C.
4. Section 112.661, Florida Statutes, enacted during the 2000 Legislative session (attached hereto as Exhibit C) provide guidelines for the general structure and content of written investment policies for Florida public retirement systems to be adopted by the Board of Pension Trustees and incorporate by reference certain limitations described in Section 215.47, Florida Statutes. These limitations are described herein under Section V (C) and in Exhibit E, Section D.
5. Section 121 of the City of Jacksonville Ordinance Code which governs the Police and Fire Pension Fund does not include a section on the "Investment of Funds" inasmuch as the references cited above effectively address this subject.
6. In the event of any conflict between this Investment Policy Statement and applicable Florida Statutes, Ordinances, governing law or judicial rulings, the conflicting Statutes, Ordinances, governing law or judicial rulings shall control.

B. Oversight and Guidance.

The Board of Pension Trustees shall have the power to be the sole entity responsible for administering the Jacksonville Police and Fire Pension Fund. In accordance with these responsibilities, the Board of Pension Trustees provides investment oversight for the management of assets and development of the Statement of Investment Policy on behalf of the Police and Fire Pension Fund and its intended beneficiaries, for whose benefit the plan was created. The intended beneficiaries include current active members, retirees, and their dependents.

The City Council and the State Legislature have the responsibility of establishing benefit levels and providing the statutory guidance for the administration of the Police and Fire Pension Fund. The State Legislature has the additional responsibility of establishing certain investment parameters and guidelines within

the provisions of Sections 175.071 and 185.06, Florida Statutes.

C. Decision Making Authority.

The Board of Trustees shall determine the retention, discharge or selection of any Investment Manager, Custodian or Investment Consultant. The Board shall also establish the amount of funds to be entrusted to any Investment Manager, and shall determine when funds shall be reallocated or withdrawn and when investment programs shall be terminated or expanded, all in accordance with asset allocation studies periodically undertaken by the Board through the Investment Consultant.

D. Exercise of Judgment and Prudent Investor Rule.

The Board of Pension Trustees and the various Investment Managers under contract to the Fund shall exercise judgment with the care, skill and diligence under the circumstances then prevailing which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investment portfolios entrusted to it; not in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income. In addition thereto, the Board of Pension Trustees is governed by the "Prudent Investor Rule", which is codified in Section 518.11, Florida Statutes, which is attached hereto as Exhibit A.

E. Compliance with Fiduciary Standards.

The Board of Pension Trustees, in performing its investment duties, shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974 at 29 U.S.C. S. 1104(a)(1)(A) through (C). These provisions are attached hereto as Exhibit B in the form of ERISA Section 404(a)(1)(A) through (C). However, in case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards referenced under Section 112.661, Florida Statutes, shall prevail.

F. Application of Policy Statement.

This Statement of Investment Policy represents the Board of Pension Trustees' current philosophy regarding the investment of Fund assets. In addition, although the Board and its Investment Managers shall utilize and be guided by this policy statement in the administration and management of the Fund's assets, any failure of this document to specifically address or anticipate any situation, condition, event, activity or investment security, shall not necessarily be viewed as a prohibition so long as such situation, condition, event, activity or investment security is consistent with the spirit and intent of this Statement of Investment Policy. The scope of this policy statement shall be limited to the investment programs of the Jacksonville Police and Fire Pension Fund. Investments not authorized by this Statement of Investment Policy are prohibited [112.661(5)(a)].

G. Interpretations of Policy Statement.

In the event that a question arises in the mind of an Investment Manager as to whether a specific situation, condition, event, activity or investment security is permitted, the Investment Manager shall consult with the Fund Administrator, for an interpretation. In the event that the Fund Administrator is unable to provide guidance for the issue at hand, such matter shall be submitted to the Board of Pension Trustees for an interpretation, with the assistance of the Investment Consultant.

H. Ongoing Support for Policy Statement Revisions.

The Board of Pension Trustees may obtain outside investment consulting services to assist them in formulating, monitoring and revising the adequacy of the Statement of Investment Policy. In order to foster a framework for the continuous improvement of this policy statement, the various Investment Managers and Investment Consultants are invited to promptly advise the Trustees whenever, in their view, the Policy Statement no longer seems appropriate or fails to properly address certain conditions.

I. Annual Review of Policy Statement.

The standards, objectives, guidelines and restrictions established by this Policy Statement are by their nature subject to changing conditions and investment opportunities. Accordingly, this Statement is scheduled to be reviewed on an annual basis by the Pension Trustees; however, the provisions contained herein may be modified and revised by the Pension Trustees at any time. The effective date of any amendments hereto shall be the 31st calendar day following the filing of the amended Policy Statement with the City [112.661(16)]. The amended Policy Statement shall also be filed with the Fund Actuary and the State Department of Management Services.

J. Mission Statement and Exclusive Purpose.

The mission of the Fund is to "serve and protect" the members of the Fund and their assets. Consistent with this fundamental mission, the Trustees seek to develop, implement, and administer quality pension benefit programs and to provide services to the members and their beneficiaries through a committed, efficient and responsive administrative staff. The Trustees shall discharge their responsibilities and administer the Fund's investment program solely in the interests of members and beneficiaries.

III. INVESTMENT OBJECTIVES:

A. General Investment Objectives.

1. The general investment objective of the Fund is to preserve the purchasing power of the Fund's assets and earn a reasonable real rate of return (after inflation) over the long term while minimizing, to the extent reasonable, the short-term volatility of returns. In broad terms, the Trustees seek to ensure over the life of the Fund that an adequate level of assets are available to fund

the benefits payable to the Plans' participants and beneficiaries at the time they become due. In meeting this objective, the Board seeks to achieve a high level of investment return consistent with a prudent level of portfolio risk.

2. To achieve these general objectives, the Board of Trustees seeks to create a well-diversified and balanced portfolio of equity, fixed income, real estate, money market and other permitted investments. The Board of Trustees may invest Fund assets in any securities, real property and other assets they deem appropriate after a thorough review of the needs of the Fund and a careful evaluation of the potential risk and returns, provided such investment is not prohibited by law. The Board has determined that outside investment managers may be retained to assure that investments are managed in both a prudent and professional manner and in compliance with the stated investment guidelines.
3. The Fund recognizes the need to prudently manage the inherent investment risks that are related to the achievement of its investment objectives. The successful achievement of these investment objectives will contribute to the preservation of the actuarial soundness of the plan and in the Fund's ability to meet the plan's long term pension benefit obligations. These general investment objectives are further elaborated upon in the following Sections III (B) through III (D).

B. Return on Investment.

1. The primary investment objective of the Board is to maximize the probability of achieving an investment return that satisfies the Actuarial Rate of Return assumed for the Fund's investment portfolio, subject to risk considerations. The Board's principal means for achieving this objective is through investment and policy directives issued to the Fund Administrator for communication to the various Investment Managers. The main objective of these investment and policy directives is to establish an appropriate target asset allocation and supervise the Investment Managers in ways that, in the Board's opinion, will maximize the likelihood of achieving the Board's investment objectives. The Board establishes permissible Asset Classes, sets permissible target weights as a percent of the total portfolio's value for each Asset Class and establishes appropriate performance benchmarks. In addition, the Board establishes a performance benchmark for the total portfolio.
2. For each actuarial valuation, the Board, in consultation with the Board's Actuary and Investment Consultant shall determine the total expected annual rate of return which shall represent a long term forecast of returns for use in actuarial determinations. As this is a long-term objective and investments are subject to short-term volatility, the main investment focus of the Board is the expected return and the associated expected volatility of the Plan as a whole over a long-term investment time horizon.
3. The performance of each Asset Class and the performance of each Manager relative to appropriate market indicies and style peer comparisons will be

monitored over both the long term and short term. Each Investment Manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style, and add incremental value after costs.

4. An additional investment objective shall be to maximize total real return, in the form of income, capital appreciation, or both, consistent with the level of risk taken or volatility accepted. In determining the appropriate risk posture for the Fund, consideration will be given to the overall risk characteristics of the Fund, and the extent to which the Fund is diversified.
5. Specific absolute and relative return investment goals are described as follows:
 - To earn an annualized rate of return (price change plus income) over the long term that exceeds the annual rate of inflation as measured by the Consumer Price Index (CPI-U) by 4.5% per year.
 - To earn an annualized rate of return over the long-term sufficient to address the Actuarial Rate of Return assumed for the Fund.
 - To earn a total rate of return, net of fees, over a market cycle, (generally 3-5 years), which exceeds the return of a Policy Index. The Policy Index for the Fund is defined as a hypothetical index constructed of the target allocation for each broad Asset Class, as adopted by the Board and contained in the Policy, invested in a broad market index representing that Asset Class. The Policy Index may change from time to time as the asset allocation target or permissible asset classes for the Fund changes, as approved by the Board.
 - In addition, it is expected that over a market cycle (generally 3-5 years) the rate of return earned by the Fund will rank above median when compared to a representative universe of other, similarly managed investment portfolios.
 - It is the goal of each active Investment Manager to achieve an annualized total rate of return, over a market cycle (generally 3-5 years) which exceeds a broad market benchmark, net of fees, and ranks above median in a style peer performance universe. The broad market benchmarks are shown in this SIP or in each Investment Manager's Investment Manager Instructions. It is the goal for each passive Investment Manager to achieve an annualized total rate of return, gross of fees, that matches the underlying market benchmark.

C. Safety of Capital.

1. An additional investment objective shall be to adequately protect the assets of the Fund so that such assets are preserved to provide benefits to participants and their beneficiaries. For this purpose, short-term fluctuations in asset values and volatility in the portfolio will be considered secondary to long-term investment results.

D. Liquidity of Funds.

1. Inasmuch as the annual contributions into the Fund are not sufficient to service the annual payroll and administrative expenses of the Fund for the foreseeable future, the investment portfolio should be structured and constrained so as to guarantee the provision of current income or sufficient liquidity in order to meet the need for the timely payment of benefits to participants and beneficiaries.

IV. INVESTMENT POLICIES:

- A. Policies to Enhance Return on Investment - The following specific policies are set forth below to provide additional guidance in the implementation of the "Return on Investment" objective.

1. Professional Investment Managers.

In recognition of the importance of professional guidance in the investment of the assets of the Fund, the administration of all (non-local real estate and City of Jacksonville private placement securities) investments shall be performed by qualified, nationally recognized, professional Investment Managers. Said Investment Managers shall be selected at regular or special meetings of the Board of Trustees by a majority vote of the Board. The Board may delegate the initial screening of Investment Managers to a committee of the Board and/or staff or to the Investment Consultant, but no final decision regarding the allocation of funds for the purpose of investment shall be made except by a majority vote of the Trustees at a regular or special meeting of the Board. In retaining professional Investment Managers, it is the intention of the Board of Trustees to give each Investment Manager full investment discretion with respect to the management of plan assets, subject to the restrictions described herein. Consistent with the extension of full investment discretion to the Investment Managers, the Trustees shall not participate in the selection of individual investment securities for inclusion in any of the individual investment portfolio's of the Fund that are managed by such Investment Managers.

2. Portfolio Composition.

When considering the composition of the portfolio, the Board shall establish goals, objectives and policies for the distribution of the Fund's assets between equities, fixed income, cash and cash equivalents, real estate and other forms of lawful investment. The goals, objectives and policies shall set forth the relative percentages of the Fund to be distributed to each Asset Class and Investment Style and shall establish expected rates of return and risk factors. Each Investment Manager shall subscribe to the written goals and objectives of the Fund and said goals and objectives shall be incorporated into the investment advisory agreement executed between the Fund and each Investment Manager. The portfolio composition is discussed in detail within Section VI (Asset Allocation) and Section VII (Portfolio Guidelines).

3. Exclusive Benefit Rule.

The Board of Pension Trustees, the professional Investment Managers, Investment Consultants and staff will discharge their responsibilities for the exclusive benefit of plan participants without prejudice or favor, avoiding at all times pressures from social issues and conduct which could impair rate of return expectations, create a conflict of interest, or a violation of State or Federal laws.

4. Competitive Price Quotes.

Based upon cash-flow needs, market conditions, and market expectations, the Board shall determine the allocation of assets to various Investment Managers. Such Investment Managers shall in turn select maturity dates and the optimal types of securities for inclusion in the investment portfolio. The Investment Managers shall 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. Full Investment of Funds.

The Board shall strive to construct a banking and investment program structure that allows for the full investment of all investable funds not otherwise committed by Investment Managers for the purchase of securities (i.e. through the use of sweep accounts and short term investment funds, etc.).

B. Policies to Ensure Safety of Capital - The following specific policies are set forth below to provide additional guidance in the implementation of the "Safety of Capital" objective.

1. Reducing Credit Risk.

The exposure to Credit Risk shall be addressed by limiting the amount of below investment grade securities purchased by investment managers, if any, and strict adherence to the permitted investment vehicles authorized by the applicable Florida Statutes and local laws and ordinances.

2. Safekeeping and Custody of Securities.

To protect against potential fraud and embezzlement, the investment securities of the plan shall be held by a third party Custodian Bank, designated pursuant to a custodial agreement executed by both parties. The securities and any related collateral held by the custodian for the benefit of the plan should be properly designated as an asset of the plan. 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.

3. Delivery vs. Payment.

Simultaneous with the release of pension funds to purchase a security, there will be a delivery of the securities purchased. Similarly, for any sale of securities, there will be a simultaneous transfer of funds to the plan before the release of the securities. This policy will ensure that the Custodian Bank will have the security or money, as appropriate, in hand at the conclusion of the transaction.

4. Risk and Portfolio Diversification.

Assets of the Fund shall be diversified to control the risk of loss resulting from an undue concentration of assets in a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary by the Board. Portfolio diversification is discussed in detail within Section VI (Asset Allocation) and Section VII (Portfolio Guidelines).

5. Master Repurchase Agreement.

Repurchase agreements executed with approved institutions and dealers shall be administered in accordance with a Master Repurchase Agreement. Overnight and short term Master Repurchase Agreements shall conform in all material respects to the Public Securities Association (PSA) Master Repurchase Agreement format. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

C. Policies to Ensure Liquidity of Funds - The following specific policies are set forth below to provide additional guidance in the implementation of the "Liquidity of Funds" objective.

1. Cash Flow Forecasting.

The plan will attempt to forecast expected cash outflows and inflows in as much detail and with as much precision as is reasonably possible. This effort will be supported by asset-liability studies periodically performed by the Investment Consultant.

2. Purchase of Securities with Active Markets.

Although many securities are acceptable for investment using the authorized list of securities, some securities may not be very desirable from a liquidity standpoint. Accordingly, the plan shall avoid undue reliance upon securities that do not possess active markets.

3. Maintenance of Liquidity Base.

An appropriate liquidity base shall be maintained or provided in such a manner as to provide sufficient liquidity to pay obligations as they come due.

- D. Policies to Ensure Ethical and Prudent Actions - The following specific policies are set forth below to provide additional guidance in support of Ethical and Prudent Actions.

1. Establishment of a System of Internal Controls.

It is the policy of the Fund to establish and maintain a system of internal controls designed to ensure that the assets of the Fund are protected from loss, theft or misuse. This system of internal controls shall address the following measures:

a. Separation of Functions

The Fund will strive to separate key functions wherever practical by having different people perform each function, so that each person can perform a "check and balance" review of the other individual.

b. Separation of Transaction Authority from Accounting and Record keeping

The Fund will strive to separate the person who performs the investment transaction or authorizations from the individuals who record or otherwise account for the transaction.

c. Custodial Safekeeping

Securities purchased from a broker/dealer or financial institution, including the provision of appropriate collateral, shall be placed with a third party Custodian Bank for custodial safekeeping.

d. Avoidance of Bearer-Form Securities

The Fund will strive to avoid the use of bearer-form securities in its investment portfolio insofar as such securities are much easier to convert to personal use than registered securities.

e. Avoidance of Physical Delivery Securities

The Fund will strive to avoid the use of physical delivery securities insofar as such securities must be properly safeguarded as are any valuable documents. The potential for fraud and loss is minimized with primary reliance upon book entry securities which do not involve the physical delivery of securities.

f. Execution of Investment Transactions

Investment transactions shall be executed by Investment Managers pursuant to Investment Advisory Agreements. Pension office staff and Board Members are not authorized to execute investment transactions.

g. Clear Delegation of Authority

Staff members shall have a clear understanding of their authority and responsibilities so as to avoid any improper actions. Clear delegation of authority also preserves the internal control structure that is built around the various staff positions and their respective responsibilities.

h. Development of Wire Transfer Authorizations

The Fund will maintain and establish a system of procedures with the Custodian Bank which will outline the various controls and security provisions for initiating wire transfers of funds.

i. Delivery versus Payment

All securities transactions shall be settled in accordance with the "Delivery versus Payment" method, if applicable [112.661(10)], so as to ensure that funds for securities are not released until all criteria relating to the specific transaction are met.

j. Conflicts of Interest

Officers and employees involved in the investment process shall not transact personal business activity that could conflict or could appear to conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

k. Independent Review of Controls

The system of internal controls employed by the Fund shall be reviewed on an annual basis by independent certified public accountants as a part of the annual financial audit to be performed for the Fund.

2. Speculative Activities.

The Fund shall not employ the use of undue speculative investment principles.

3. Training and Education.

The Fund shall provide and make available periodic training and educational opportunities concerning investments and related subjects for Board Members, Advisory Committee Members and appropriate personnel.

V. AUTHORIZED CLASSES OF INVESTMENTS:

A. Investment Authorizations During the 2005 Legislative Session.

During the 2005 Legislative Session, the Florida Legislature enacted Chapter 2005-330, Laws of Florida (HB1309). This legislative act provided for an amendment to

Section 22.04(b) of the Charter of the City of Jacksonville. This amendment provided that the Board shall have the power to invest assets in the Fund in any lawful investment as provided in the applicable provisions of Section 215.47, Florida Statutes. Under Section 112.661(5)(a), the authorized elements of 215.47 are represented by those investments set forth in 215.47(1)-(8), (10) and (16). Upon the passage of the above described 2005 legislative enactment (Chapter 2005-330, Laws of Florida), the Trustees elected to forgo the adoption of the expanded investment capabilities within the Fund's SIP. This action on the part of the Trustees (effectively a self-imposed moratorium) was in response to a challenge issued to the Fund by the State of Florida, Division of Retirement, that the Fund did not have the legal ability to implement the expanded investment capabilities, without placing in peril the future distribution of \$9 million in State revenues (Chapter Funds) to the Fund. In 2009, the Fund filed legal action against the State in an effort to resolve the dispute. See the below Section V(C) for a discussion on the Fund's lawsuit against the State of Florida and the posture of the above described initial moratorium voluntarily issued by the Trustees of the Fund. This legal action was resolved in favor of the Fund in June, 2010 pursuant to a judicial ruling that the Fund possessed the legal ability to undertake the authorized elements of 215.47, Florida Statutes as defined in 112.661(5)(a). See Exhibit H for a copy of the Final Declaratory Judgment.

B. Investment Authorizations During the 2009 Legislative Session.

Action taken by the Florida Legislature during the 2009 Legislative Session expanded the range of investments that may be undertaken by the Jacksonville Police and Fire Pension Fund. The first action taken during the 2009 Session in this regard related to the enactment of Local Bill HB877 which amended Section 22.04(b)(2) of the City Charter. The amendment provided for an increase in authorized real estate investments from 10% to an amount not to exceed 20% of the assets of the plan, at cost. The second action taken during the 2009 Session in this regard related to the enactment of General Bill HB5/SB538 which increased the ability of all police and fire pension plans in the State to undertake the investment of foreign securities up to 25% of plan assets on a market value basis. The former limit of 10% for foreign securities was increased to 25% within Section 175.071(1)(b)(4)(b), Florida Statutes and Section 185.06(1)(b)(4)(b), Florida Statutes. These two legislative enactments served as the catalyst for the Trustees decision to increase the strategic allocation in real estate from 10% to 20% and the strategic allocation in foreign securities from 10% to 20% within the 2009 revisions to the SIP.

C. Investment Authorizations During the 2010 Legislative Session.

Action taken by the Florida Legislature during the 2010 Legislative Session provided for an increase in the level of authorized investments in foreign securities from 25% to 35%. This increase was implemented pursuant to the enactment of Chapter 2010-180, Laws of Florida (HB 1307) which created Section 215.47(20), Florida Statutes. However, this Section 215.47(20) authorizing an increase in foreign securities from 25% to 35% currently only applies to the program of investments of the State Board of Administration (FRS), excluding other Florida

municipal plans. In order for this increased authorization for foreign securities to be available to Florida municipal plans, the Florida Legislature would have to amend Section 112.661(5)(a), Florida Statutes to incorporate by reference the authorizations contained in 215.47(20). To date, the Florida Legislature has not granted such modifications to 112.661(5)(a).

D. Summary of Authorized Investments under Section 215.47, Florida Statutes.

The applicable elements of Section 215.47, Florida Statutes, which now describe the authorized investments for municipal pension plans in the State of Florida are reflected under 215.47 (1)-(8), (10) and (16). This range of authorized investments is universally authorized for all general employee pension plans (non-police and fire) established in the State of Florida. However, this range of authorized investments are generally not available to police and fire pension plans established in the State of Florida inasmuch as such plans are alternatively governed by the more restrictive set of provisions reflected in Sections 175 and 185, Florida Statutes. The Fund filed a lawsuit against the State to compel it to permit the Fund to pursue the authorized investments under the applicable elements of Section 215.47, notwithstanding the more restrictive language in Chapter 175 and 185. Favorable resolution of the pending lawsuit was obtained by a judicial ruling issued in June, 2010 and is reflected herein as Exhibit H. The Fund shall be considered to have adopted the applicable elements of 215.47 as authorized investments for the Fund without the need to undertake further amendments to this SIP. See Exhibit D for a complete description of Section 215.47, Florida Statutes. A summary of the applicable elements of Section 215.47 is offered below. Under the applicable elements of Section 215.47, pension fund assets that are available for investment may be invested:

1. Without limitation in U.S. government and agency securities, various full faith and selected state and municipal securities, various savings accounts and CD's of banks and S&L's, prime quality commercial paper and bankers acceptances, prime quality negotiable CD's issued by domestic or foreign financial institutions denominated in U.S. dollars, various short term investment funds, various mutual funds and similar investment products comprised of U.S. government, agency and instrumentality securities, and repurchase agreements collateralized by U.S. government securities.
2. With no more than 25% in various investment grade state and municipal securities, certain FHA and VA notes, certain CMO's, certain group annuity contracts, certain interests in real property and related personal property with provision for equity and income participation, investment grade foreign fixed income obligations, fixed income obligations of the government of Israel, dollar denominated obligations issued by foreign governments and corporations, and asset backed securities not otherwise described herein.
3. With no more than 80% in domestic equities and convertible bonds listed under major exchanges, and domestic corporate bonds.
4. With no more than 25% in corporate obligations and securities of foreign

corporations and entities.

5. With no more than 5% in any other form of investment, provided that such investment plans are presented to the (State) Investment Advisory Council.
 6. Transactions involving the purchase and sale of certain futures and options.
- E. Restrictions not Reflected in the Applicable Elements of Section 215.47.

Notwithstanding the permitted investments described above which are authorized under Section 215.47, Florida Statutes, Section 22.04 (b)(2) of the Jacksonville City Charter states that "investments in fixed real estate assets shall not exceed 20 percent of the assets of the plan, at cost".

- F. Expanded Discussions on Historical Statutory Provisions.

Please refer to Exhibit E for a summary of the statutory provisions that have historically governed the authorized investments of the Fund. This summary separately addresses the following:

1. Authorizations under Chapter 18615, Laws of Florida, Acts of 1937.
2. Authorizations under Sections 175.071 and 185.06, Florida Statutes.
3. Authorizations under Section 22.04 (b) of the Jacksonville City Charter.
4. Authorizations under Section 215.47, Florida Statutes.

- G. Securities Lending Program.

Authorized investments may be loaned to securities dealers, provided the loan is collateralized by cash, letters of credit, or United States Government securities having a market value of at least 100% of the market value of the securities loaned. Specifically, domestic securities shall have an initial minimum collateralization requirement of 102% while international securities shall have an initial minimum collateralization requirement of 105% of market value. The Fund shall ensure that sound risk management practices are instituted by the securities lending agent bank to address the various risk elements of the Fund's Securities Lending Program. The risk elements to be addressed include counterparty risk (including credit risk and collateral risk), operational risk (of the agent bank), collateral reinvestment (or interest rate) risk, and market risk.

VI. ASSET ALLOCATION:

- A. General.

1. The Board believes that the level of risk assumed in the Fund is a function, in large part, of the Fund's asset allocation. 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 and is necessary in the current market environment to fully fund future liabilities.

2. The Fund's investments shall be invested in a diversified portfolio composed of equity securities (both domestic and international), fixed income securities (both domestic and international), diversifying assets (such as real estate or alternative assets, as permitted by statute) and cash equivalent securities, and as such, are intended to be more aggressive than fixed income only portfolios and less aggressive than equity only portfolios.
3. Based on its determination of the appropriate risk posture for the Fund, and its long-term return expectations, the Board, with recommendations from the Investment Consultant and Actuary, has established asset-mix guidelines for the Fund, based on market values. The asset allocation is a strategic asset allocation. The long term target allocation percentage and permitted range for each asset class shall be based upon the most recent asset-liability study performed by the Investment Consultant, generally ever 3-5 years, and as adopted by the Board. Both the target allocations and permitted ranges should be adhered to under normal circumstances. However, because the target allocations and permitted ranges are long term in nature, periodically the asset mix may fall outside the target or range. Dollar-cost-averaging, portfolio transition or other cases where the Board determines deviation from the target or range is in the best interest of the Fund are permitted exceptions. This in no way should be considered tactical asset allocation or market timing and is not viewed as such by the Board.
4. The Board, in conjunction with the Investment Consultant and Actuary, is responsible for broad asset allocation decisions. A manager's cash holdings can disrupt this position and therefore under normal circumstances should be limited to ten percent (10%) of its portfolio market value.
5. Until such time as the Board changes the broad asset class targets, a routine rebalancing of the various portfolios back within permitted allocation range shall be implemented as necessary. The first tool used to achieve this rebalancing shall be regular cash flows. After that, manager cash and portfolio liquidation shall be used. When market experience moves the portfolio allocation outside a range of +/-3 to 5% around the target allocation at month end, the Fund Administrator or investment staff in conjunction with the Investment Consultant will consider any necessary action to rebalance back toward the target allocation. Priority of rebalancing shall be asset class before style or individual manager. Managers considered by the Board to be underperforming their benchmarks, undergoing personnel or ownership change or for other reasons as determined by the Board, may be excluded from receiving additional assets in any rebalancing.

B. Diversification.

1. The investments of the Fund shall be so diversified as to minimize the impact

of large losses under any individual Asset Class or Investment Style.

2. The Trustees will seek diversification of the investment portfolio through the utilization of various Investment Styles, particularly in the equity portfolio.

C. Strategically Targeted Portfolio (Policy Index) and Asset Allocation Ranges.

The Board has adopted the stated investment objective of achieving a rate of return that equals or exceeds the Actuarial Rate of Return. In order to achieve this expectation, the Board sets a relative objective for the composite performance of all Investment Managers of achieving or exceeding the return attached to a performance benchmark known as the Strategically Targeted Portfolio or Policy Index over time. The Strategically Targeted Portfolio or Policy Index represents a composite hypothetical portfolio consisting of a specific mix of the authorized Asset Classes matching the general asset allocation program embraced by the Fund. The return on this composite portfolio is a weighted average of the returns derived from passive benchmarks for each of the Asset Classes employed by the Fund. The assumption is that this return will meet or exceed the Actuarial Rate of Return and will thus assure the achievement of the Board's investment objective. The Strategically Targeted Portfolio or Policy Index used for benchmark performance comparisons is currently composed of the following elements:

- | | |
|---------|------------------------------|
| - 35% | Russell 3000 Index |
| - 20% | MSCI AC World ex US |
| - 22.5% | Barclays Capital Aggregate |
| - 10% | NCREIF Property Index – ODCE |
| - 5% | NCREIF Property Index |
| - 7.5% | S&P MLP Index |

This relative return objective is developed in a risk management framework. Risk from the prospective of the Board is failing to earn the Actuarial Rate of Return over extended periods of time, and the asset mix is developed to minimize this risk. In selecting the Strategically Targeted Portfolio or Policy Index, the Board considers information from actuarial valuation reviews and asset/liability studies of the Police and Fire Pension Fund, as well as historical and forecasted returns from various Investment Styles and Asset Classes. In addition, the timing of cash flow requirements on the portfolio to honor benefit liabilities are an important input in the development of the Strategically Targeted Portfolio or Policy Index.

Periods of positive cash flow into the Fund from net contributions permit higher exposures to equities, while cash demands on the portfolio may dictate lower equity exposures. Potential asset mixes are thus evaluated with respect to their expected return and volatility. Although the Strategically Targeted Portfolio or Policy Index has an expected return and risk associated with it, it is important to note that this expected return is neither an explicit or implicit individual goal for the Investment Managers of the Fund. The Strategically Targeted Portfolio or Policy Index is used solely in developing an asset allocation program that will enhance the probability of success in achieving the Actuarial Rate of Return. The Investment Managers are not held responsible for specifically achieving the

Actuarial Rate of Return in each period, but rather for performing at least as well as their applicable benchmarks.

The Board's current Strategically Targeted Portfolio is composed of the following Asset Classes and target allocations. Target allocation percentages are based on the market value of the Fund's assets and represent the Board's strategic asset allocation policy.

DOMESTIC EQUITIES	35%	
Large Cap		24.5%
Small Cap		10.5%
INTERNATIONAL EQUITY	20%	
Developed Markets		15%
Emerging Markets		5%
FIXED INCOME	22.5%	
Core		5%
Core Plus		7.5%
High Yield Senior Bank Notes		2.5%
Emerging Market Debt		5%
TIPS		2.5%
REAL ESTATE	15%*	
Core		10%
Private Non-Core		5%
MLPS		7.5%
CASH	Min.	

*An amount equivalent to approximately 1% is represented by the office building housing the Fund's Administrative offices and the adjoining parking garage.

In pursuit of incremental investment returns, the Fund Administrator may, in consultation with the Investment Consultant, recommend that the Trustee's pursue a temporary variance in the asset mix from the long term strategic allocation based on market conditions and the investment environment for the individual Asset Classes. After considering the nature of current and anticipated economic conditions, the absolute values of asset class investments and the relative valuations between asset classes; the Board may elect to pursue such tactical asset allocations in accordance with the following established ranges (percentages are based on the market value of the Fund's assets):

<u>ASSET CLASS</u>	<u>RANGE</u>
DOMESTIC EQUITIES	30-40%
FIXED INCOME	17.5-27.5% **
INTERNATIONAL EQUITIES	15-25%
REAL ESTATE	10-20%
MLPs	2.5-9.5%
CASH EQUIVALENTS	0-20%

** For purposes of determining compliance with the above policy ranges, the Fund shall be permitted to consider certain real estate partnerships with the City of Jacksonville as an investment within the Fixed Income Asset Class to the extent that the transaction embodies characteristics that essentially render the transaction a fixed income investment. As an example of such a fixed income equivalent transaction is represented by the Jake M. Godbold City Hall Annex partnership with the City which delivers a fixed 11.9% return to the Fund based upon a \$10 million investment.

Please note that 2% of the above described 5% range generally authorized around the target allocation may represent the variance that is normally accepted in conjunction with the required implementation of rebalancing efforts (see section F-2). Accordingly, a 2% variance would not necessarily reflect a conscious tactical asset allocation decision that would require specific action on the part of the Trustees to implement.

For purposes of determining compliance with these policy ranges, an Asset Class is considered to be an aggregation of one or more portfolios with substantially the same principal asset type. An Asset Type is a category of investment such as domestic common stocks or bonds.

For example, all of the portfolios whose principal Asset Type is bonds, would be aggregated together as the fixed income Asset Class. As such, it would contain primarily—but not exclusively—the principal Asset Type. As a standard management practice, Investment Managers are expected to meet the investment return goals for all assets allocated to their investment portfolio.

The Fund Portfolios are expected to be managed in such a way that the actual Asset Class allocation mix will remain within the stipulated ranges. Investment strategies or market conditions which result in an allocation position for any Asset Class outside of the enumerated ranges for a period exceeding thirty days shall be reported to the Board by the Investment Consultant, together with a review of conditions causing the persistent deviation and a recommendation for subsequent investment action.

D. Asset Allocation.

The Trustees periodically review the question of asset allocation as it relates to the choice of investment vehicles, styles of management, and the investment portfolio among domestic stocks, domestic bonds, real estate, foreign securities, cash equivalents and other permissible asset classes. The Trustees are free to adopt various styles of investing and percentage allocations within the parameters described above in Section VI (C). Examples of possible styles that may be periodically adopted within the above parameters and other applicable guidelines are generally described, but not limited to the following:

1. 25% of the pension assets valued on the basis of market value are strategically allocated to domestic fixed income Investment Managers. The amount allocated to this Asset Class may be further allocated among core, specialized

(e.g. bank debt), intermediate, defensive, long duration, international, (including emerging market debt), inflation-protected securities or higher yielding fixed income styles based upon the judgment of the Trustees. This Asset Class may also include certain real estate partnerships with the City of Jacksonville where the transaction embodies characteristics that essentially render the transaction a fixed income investment.

2. 40% of the pension assets valued on the basis of market value are strategically allocated to domestic equity Investment Managers. The amount allocated to this Asset Class may be further allocated among large cap, small cap, SMID cap, core, growth, value, index, and enhanced index styles, including overlay strategies based upon the judgment of the Trustees.
3. 20% of the pension assets valued on the basis of market value are strategically allocated to international equity investment managers. The amount allocated to this asset class may be further allocated among large cap, small cap, SMID cap, core, growth, value, index, enhanced index, emerging markets, and geographic allocations based upon the judgment of the Trustees.
4. In addition to the fixed and equity securities described above which fall under the investment custody responsibilities of the Custodial Bank, the Trustees have also authorized a strategic allocation to real estate investments in an amount approximately equivalent to 15% of the total plan assets (including those under the investment custody responsibilities of the Custodial Bank). Approximately 1% of such 15% strategic allocation to real estate investments is currently represented by the office building which houses the administrative offices of the Fund and the parking garage attached thereto which is classified as a Value Added type of real estate investment. The amount allocated to real estate investments may be further allocated among the following to the extent permissible: core, value added and opportunistic styles based upon the judgment of the Trustees. Timberland, oil and gas, master limited partnerships (MLP's), Real Estate Investment Trusts (REIT's), Commercial Mortgage Backed Securities (CMBS), distressed properties, infrastructure assets and international real estate investments may also be pursued by the Trustees, if allowed by statute.
5. In an effort to achieve the desired level of diversification within the various Investment Styles, the Trustees may authorize the use of multiple investment counseling firms in fulfilling each Investment Style mandate.
6. Fixed and equity Investment Managers are extended full discretion to employ the use of cash equivalent securities to whatever extent deemed prudent; however, written notification and explanation should be provided to the Pension Trustees in the event cash equivalents exceed 10% of the portfolio. The 10% cash equivalent threshold is not to be viewed as a barrier that should not be crossed, but rather a conscious investment decision that represents a noteworthy perspective on the market which prudently warrants the need to issue a specific notification to the Pension Trustees when such perspectives exist. Cash equivalent strategies in excess of 10% do not require the approval

of the Pension Trustees, but merely an obligation to provide a notification or disclosure of such condition to the Pension Trustees.

7. These asset allocation guidelines are to be pursued by the Trustees on a long-term basis, but such guidelines will be reviewed annually and subject to revision in the event significant changes occur within the economic and/or capital markets environment.

E. Distribution of Net Cash Flow.

1. Assets under management shall be allocated between the domestic equity, international equity, fixed income, and real estate Investment Managers so as to approximate a 43/20/22.5/15/7.5 split measured on the basis of market value.
2. Net contributions, if any, over pension payroll requirements shall be periodically allocated to individual Investment Managers so as to generally maintain the 35/20/22.5/15/7.5 split between domestic equity, international equity, fixed income, and real estate.
3. The distribution of positive net cash flow will be initiated when the Fund staff determines that sufficient amounts are available, generally in excess of \$1,000,000 and that such amounts are not required for pension payroll and administrative expenses of the Fund.
4. During periods of negative cash flow, the Trustees will determine the source of funds for periodic distributions to the operating cash balance of the Pension Fund.

F. Asset Re-balancing Policy.

1. The primary purpose of re-balancing is to insure that the Fund adheres to its strategic asset allocation, which is the Fund's explicit statement of its investment approach.
2. The Fund will initiate re-balancing activities once the allocations to a particular targeted style of investing at the end of a monthly reporting period carries a variance in excess of 3% for publicly traded equity and fixed income portfolios and 5% for less liquid portfolios (such as Real Estate and Alternative Strategies) from the targeted percentage allocation, absent tactical asset allocation decisions.
3. Asset re-balancing programs to be pursued by the Fund should be supported by the Investment Consultant, who shall take into consideration the Fund's asset allocation and balancing status, future anticipated transactions, market values, and the current economic and capital market environment.

VII. PORTFOLIO GUIDELINES:

A. General.

1. The Fund Administrator, in consultation with the Investment Consultant, Investment Managers and Actuary, is responsible for developing periodic recommendations for consideration by the Board regarding the various Asset Classes, Investment Styles and individual portfolio policies and guidelines which are to be formally reflected in the goals and objectives of this Statement of Investment Policy. Once adopted by the Board, the Administrator shall manage the implementation of the Statement of Investment Policy and the guidelines reflected therein. The Administrator shall manage the guidelines for the selection and retention of Investment Managers as well as all external contractual relationships in discharging the fiduciary responsibilities of the Board. All Asset Classes and Investment Styles shall be invested to achieve or exceed, on a net of fee basis, the return for their respective benchmarks over a three to five year period of time and thereby approximating a full market cycle. The portfolios shall also be well diversified with respect to the appropriate benchmark.
2. The Board of Pension Trustees will retain investment management organizations to passively or actively invest in equity, fixed-income, real estate, and cash equivalent securities on behalf of the Board. Each Investment Manager, within the investment policy guidelines, shall have full discretion with respect to the investment process. It is required that each investment management organization shall have established internal controls to ensure that the investment activity operates in compliance with all controlling statutes and regulations.
3. Since transaction costs represent a reduction of pension assets, turnover will be maintained at the lowest level consistent with the implementation of investment strategies to be employed by the individual Investment Managers.
4. No Investment Manager shall be permitted to purchase the securities of the investment management organization for inclusion in the portfolio of the Fund. This prohibition shall additionally extend to the securities of the parent organization or subsidiaries of the investment management firm.
5. Unless otherwise additionally restricted by law or ordinance, the investment of plan assets shall be subject to the general limitations and conditions described in Section 215.47 (1), (2), (3), (4), (5), (6), (8), (9), (11), and (17), Florida Statutes, as stipulated in Section 112.661(5), Florida Statutes.

B. Cash Equivalents Guidelines/Restrictions.

1. Permissible Cash Equivalent Securities for the Fund include:
 - Savings accounts in, or certificates of deposit of, any bank, savings bank, or savings and loan association incorporated under the laws of this state or organized under the laws of the United States doing business and situated in this state, the accounts of which are insured by the Federal Government

or an agency thereof and having a prime quality of the highest letter and numerical ratings as provided for by at least one nationally recognized statistical rating organization, provided such savings accounts and certificates of deposit are secured in the manner prescribed in Chapter 280.

- Bonds issued by the Florida State Improvement Commission, Florida Development Commission, Division of Bond Finance of the Department of General Services, or Division of Bond Finance of the State Board of Administration.
 - Notes, bonds, and other obligations of agencies of the United States.
 - Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.
 - Time drafts or bills of exchange drawn on and accepted by a commercial bank, otherwise known as banker's acceptances, which are accepted by a member bank of the Federal Reserve System and are of prime quality of the highest letter and numerical ratings as provided for by at least one nationally recognized statistical rating organization.
 - Negotiable certificates of deposit issued by domestic or foreign financial institutions in United States dollars of prime quality of the highest letter and numerical ratings as provided for by at least one nationally recognized statistical rating organization.
 - Short-term obligations not authorized elsewhere in this section to be purchased individually or in pooled accounts or other collective investment funds, for the purpose of providing liquidity to any fund or portfolio.
 - Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
2. Notwithstanding the above list of securities that are eligible for investment by the Custodian Bank, the Investment Managers may invest only in the following short-term investment vehicles:
- The money market or STIF provided by the Custodian Bank.
 - Direct obligations of the United States Government or its agencies with a maturity of one year or less.

- Repurchase agreements which are fully collateralized by direct obligations of the United States Government.
- Commercial Paper issued by United States corporations which has a maturity of 270 days or less and that is rated A-1 or higher by Standard & Poor's or P-1 or higher by Moody's, subject to a limit of no more than \$5 million by any single issuer.
- Bankers Acceptances issued by prime money center banks, subject to a limit of no more than \$5 million in any single bank.

C. Equity Guidelines/Restrictions.

1. No one equity holding in the Fund's portfolio shall represent more than 5% of the outstanding common stock of any one company.
2. No equity holding of any one company in the Fund's portfolio shall represent more than 5% of the assets of the Fund measured on the basis of market value.
3. Exchange Traded Funds (ETF's) may be used and held in domestic equity portfolios but are limited to 5% of a manager's portfolio.
4. American Depositary Receipts (ADR's) and foreign domiciled companies that are traded on United States exchanges are permitted investments for domestic equity managers; however, the combined amount of such securities shall be limited to 15% of a domestic equity manager's portfolio managed for the Fund measured on the basis of cost. This authorization is subject to the collective use of ADR's, foreign domiciled companies and international securities (through international equity managers) operating within the overall 25% limitation of the total Fund assets measured on the basis of cost. Notwithstanding these guidelines with respect to individual domestic equity managers, the Trustees shall issue directives to such individual domestic equity managers for the liquidation of a portion of their holdings in ADR's and foreign domiciled companies in the event that the Trustees conclude that the overall limitation of 25% is in peril of being exceeded.
5. There shall be no investment in foreign securities within the portfolios of Investment Managers who are hired and assigned to manage domestic portfolios (except within the constraints described above), there shall be no investment in venture capital, commodities, financial futures or options (other than covered call options), letter stocks, private placements (except those issued under Rule 144a with such securities being limited to 15% of a manager's portfolio measured at market value), securities of the Investment Advisor, Custodian, or affiliated organizations, short selling, purchases on margin, puts, calls, or hedging, or other specialized investment activity without the prior approval of the Board of Pension Trustees.

6. American Depositary Receipts and Global Depositary Receipts are permissible in international equity portfolios.
7. Convertible preferred stocks may be purchased so long as the common stocks underlying them meet the required equity standards.
8. Convertible bonds shall not be considered as an appropriate equity substitute.
9. The equity Investment Managers are permitted to sell covered call options.
10. All securities purchased shall be fully negotiable and marketable unless prior approval is secured by the Board of Pension Trustees. An illiquid investment is generally recognized as an investment for which a recognized market is not available or for which there is no consistent or generally accepted pricing mechanism.
11. In order to achieve the desired level of quality and liquidity of the portfolio, all domestic equity purchases (other than private equity mandates) are limited to stocks registered or listed on a United States national exchange, (i.e. New York Stock Exchange, American Stock Exchange and the NASDAQ Over the Counter Market) and whose corporation conforms to the periodic reporting requirements under the Securities Exchange Act of 1934.
12. Permissible equity securities shall include equity separate accounts, commingled vehicles, index funds, and mutual funds consisting of those common stocks, preferred stocks, and convertible securities described above.
13. The equity Investment Managers are encouraged to limit both explicit trading costs (e.g. commissions) and implicit costs (e.g. market impact). Targeting low average commission costs, use of crossing networks, and transacting equity trades through commission recapture agents with which the Board has an agreement are all permissible ways to limit explicit costs. However, all such security transactions shall be executed only on a "best price and execution basis" (as defined by ERISA Technical Release Number 86-1) and when in the best interest of the Plan. This brokerage policy is designed to assist the Trustees in providing a cost-effective commission rebate vehicle to return excess commissions to the Plan.

D. Fixed Income Guidelines/Restrictions.

1. All securities purchased for the portfolio must have an investment grade rating of BBB or better (investment grade) from a nationally recognized rating service (i.e. Moody's, Standard & Poor's, or Fitch). For a issue with a split rating, the lower quality designation will govern. In the event of a downgrade below BBB- or its equivalent after the time of purchase, the Investment Manager shall be required to dispose of the security at the earliest beneficial opportunity. The Trustees consider BBB- to fall within the general definition of an "BBB" rating. See Exhibit G for rating scales used by rating agencies. Notwithstanding this general requirement of BBB, unless prohibited by statute, the Fund may accept

un-rated private placement debt securities issued by the City of Jacksonville to the extent that it can be established that the instrument would command a BBB- rating had a formal rating been secured. Any purchase of below investment grade rated debt securities may only be made with the prior written permission of the Board.

2. No purchase may be made which would cause a holding to exceed 5% of the issuer's outstanding fixed income securities.
3. No more than 5% of the Fund's portfolio shall be invested in the securities of any single issuer, with the exception of the United States Government and its agencies and instrumentalities, which carry no limit, and securities of the City of Jacksonville.
4. Convertible bonds may be purchased up to 10% of the value of the fixed income portfolio; however, such investments should be liquidated at the time of conversion so as to avoid a fixed-income Investment Manager from carrying equity securities in the fixed-income portfolio.
5. There shall be no investment in foreign bonds (with the possible exception of bonds issued by the State of Israel where contractually authorized) within the portfolios of Investment Managers who are hired and assigned to manage domestic portfolios. There shall be no investment in futures products, securities of the Investment Manager, Custodian Bank, or affiliated organizations. In addition, there shall be no short selling or other specialized investment activity without the prior approval of the Board of Pension Trustees.
6. Yankee Bonds are permitted investments; however, such securities shall be limited to 5% of a fund manager's portfolio.
7. Closed end bond funds may be purchased; however, such purchases shall be limited to 10% of an Investment Manager's portfolio. In addition, the Investment Manager's holdings in any single closed end bond fund may not exceed 10% of the amount of such closed end bond fund.
8. Collateralized Mortgage Obligations (CMO's) are acceptable provided they meet the following criteria:
 - a. Backing by the full faith of the U.S. Government or an Agency thereof, or that are rated AAA by a major rating service.
 - b. A volatility rating by Fitch Investors Services in the low to moderate category (VI, V2, or V3) or characteristics consistent with such ratings.
 - c. Limited to PAC (Planned Amortization Class), NAC (Non-Accelerated Securities), VADM (Very Accurately Defined Maturity) securities, or sequential CMO's.
9. Investments in Commercial Mortgage Backed Securities (CMBS) are

permitted, provided they are rated AAA by a major rating service. However, the total value of all CMBS investments shall not exceed 15% of the market value of the total fixed income portfolio.

10. All securities purchased shall be fully negotiable and marketable, with the possible exception of private placement securities issued by the City of Jacksonville. An illiquid investment is generally recognized as an investment for which a recognized market is not available or for which there is no consistent or generally accepted pricing mechanism.
11. In order to meet the liquidity and market pricing needs of the Fund, all fixed income securities purchased should have active markets, with the possible exception of private placement securities issued by the City of Jacksonville.
12. Structured notes may not be held in the fixed income portfolio.
13. Permissible securities shall include fixed income separate accounts, commingled vehicles, index funds and mutual funds consisting of those fixed income securities listed above.

E. Real Estate Guidelines/Restrictions.

1. Permissible real estate investments are considered to include certain interests in real property and related personal property, including mortgages and related instruments on commercial or industrial real property, with provisions for equity or income participation or with provisions for convertibility to equity ownership; and interests in collective investment funds as well as infrastructure assets. Associated expenditures for acquisition and operation of assets purchased under this provision or of investments in private equity or other private investment partnerships or limited liability companies shall be included as a part of the cost of the investment.
 - The title to real property acquired under this paragraph shall be vested in the name of the respective fund.
 - For purposes of taxation of property owned by any fund, the provisions of s. 196.199(2)(b) do not apply.
 - Real property acquired under the provisions of this paragraph shall not be considered state lands or public lands and property as defined in Chapter 253, and the provisions of that chapter do not apply to such real property.
2. When deemed appropriate by the Board, real estate investment may be made in any legally permissible real estate investment vehicles, including, but not limited to, individual property investments, joint ventures, commingled funds, real estate investment trusts (REIT's), limited partnerships and limited liability companies, in an amount up to 15% of the Fund.
3. The Board will seek to diversify its real estate portfolio by property type (multi-

family residential, industrial, office, retail, timberland, etc.), property location (geographic region), and strategy (core diversified, value-added, opportunistic). In addition, the Board will seek to diversify its real estate-related, real assets in the overall real estate portfolio. Such assets may include energy-related partnerships, timber, commodities, and infrastructure to the extent it is permitted by statute.

4. As real estate investments, in general, are intended to provide a steady and predictable level of income, low volatility of total return and a low correlation to other asset classes, leverage is limited to 35% at the portfolio level for core investments and 70% at the portfolio level for value-added /opportunistic, at cost.
5. All real estate investments shall be managed by experienced and qualified professional investment managers, with the exception of locally-owned and managed real estate which may be managed by staff of the Fund.

F. Commingled and Mutual Fund Guidelines / Restrictions:

1. The Board recognizes and accepts that commingled and mutual fund investments will be dictated by the investment policies and guidelines of those funds and that no additional constraints may be imposed on them. The decision to invest Fund assets in any commingled or mutual fund will only be made by the Board of Trustees after a thorough review of the policies and/or prospectuses of those funds and after it has been determined that those policies are appropriate and generally consistent with the investment objectives of the Fund.

G. Economically Targeted Investments and Socially Responsible Investments.

The Fund will consider various investment programs that are occasionally referred to as economically targeted investments (e.g. investments providing collateral benefits) or socially responsible investments. However, such considerations shall be based solely upon the expected return and risk characteristics of an investment approach and its impact on the success of the program as a whole. In order for such programs to receive serious consideration, they must address three basic minimum requirements:

1. Investments designated with below-market rates of return or other concessionary terms are not acceptable because they compromise the Fund's risk-return standards and conflict with the Trustee's fiduciary responsibilities. Investments must yield an expected rate of return commensurate with the recognized level of risk of the investment.
2. Investments must meet the diversification and credit standards established by the Fund.
3. Asset strategies should anticipate the cash needs of the Fund.

VIII. ROLES AND RESPONSIBILITIES:

A. Custodian Bank.

The Board shall retain a bank or trust company to act as Custodian Bank for the Fund's assets. Such Custodian shall be responsible for the safekeeping of all the Fund's assets put under its custody, as well as the regular valuation of Fund assets and settlement of Investment Manager's trades on behalf of the Fund. In order to maximize the Fund's return, no money should be allowed to remain idle and uninvested. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested promptly upon receipt. Consistent with these requirements, the Custodian Bank shall be responsible for the following functions:

1. Accept daily instructions from the Investment Managers;
2. Advise Investment Managers daily of changes in cash equivalent balances;
3. Immediately advise Investment Managers of contributions and withdrawals from their account;
4. Notify Investment Managers of tenders, rights, fractional shares or other dispositions of holdings;
5. Resolve any custodial account problems that Investment Managers may have relating to the custodial account;
6. Safekeeping of securities;
7. Collection of all-interest and dividends;
8. Daily cash sweep of idle cash balances;
9. Process all Investment Managers security transactions;
10. Collect proceeds from maturing securities and sale transactions;
11. Make cash disbursements as directed;
12. Provide monthly statements based on cost and fair market value for each security in each Investment Manager account and a consolidated statement of all assets under custody to the Trustees and Investment Consultant;
13. Provide a dedicated account representative and back-up to assist Pension Office staff in all needs relating to the custody and accountability of the Fund's assets;
14. Managing and/or assisting the securities lending program as directed by the Pension Trustees.

15. Provide a schedule of commissions paid and brokers used by each Investment Manager;
16. Provide other reports mutually agreed upon by the Custodian Bank and the Board;
17. Provide any other tasks necessary for the effective safekeeping, valuation or administration of Fund assets; and
18. Distribute proxies to all Investment Managers.

B. Investment Managers.

The duties and responsibilities of each of the registered investment advisors retained by the Board include:

1. Managing the assets under its administration in accordance with the investment focus and Investment Style assigned by the Trustees (i.e. Large Cap Growth, Intermediate Fixed Income, International Equity, etc).
2. Managing the assets under its administration in accordance with the policy guidelines and objectives expressed herein, or as otherwise expressed in a separate individually prepared manager guidelines and instructions (see sample as Exhibit F).
3. Exercising full investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the Investment Manager's current investment strategy and in compliance with the Policy.
4. Promptly informing the Pension Trustees regarding all significant matters pertaining to the investment of the Fund assets, for example:
 - * Substantive changes in their investment outlook, investment strategy, asset allocation, investment products utilized, portfolio structure and market value of managed assets;
 - * The manager's progress in meeting the investment objectives set forth in this document;
 - * Significant changes in the ownership, ownership affiliations, organizational structure, financial condition, professional personnel staffing, and clientele of the investment management organization;
 - * Change in the assigned portfolio manager(s) and all other matters affecting the relationship with the Fund;
 - * Changes in regulatory registration or enforcement;

- * If the firm or any of its officers or account managers are being sued by a client which is a tax-exempt fund or by any of the participants of such a fund, or by the U.S. Department of Labor or the Internal Revenue Service or under sanction or investigation by the Securities and Exchange Commission, as an outgrowth of the firm's money management services.
5. Initiating written communication with the Pension Trustees whenever the Investment Manager believes that this Statement of Investment Policy or guidelines reflected herein should be altered. No deviation from guidelines and objectives established in the policy should occur until after such communication has occurred and the Pension Trustees have approved such deviation in writing.
 6. The Fund's Investment Managers shall discharge their responsibilities in the same manner as if the Fund were governed by the fiduciary responsibility provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Although the Board acknowledges that ERISA does not apply to the Fund as a governmental retirement plan, it hereby imposes the fiduciary provisions of ERISA upon each Investment Manager whose performance shall conform to the statutory provisions, rules, regulations, interpretations and case law of ERISA. Each Investment Manager shall acknowledge within the investment advisory agreement that it is a fiduciary, as that term is defined by ERISA, of the Fund. Each Investment Manager shall be responsible only for those assets under its management. It is expected that Fund assets will be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of the assets.
 7. Unless otherwise approved on an exception basis and fully disclosed to the Board in advance, investment managers shall not: custody assets under their control, execute trades through brokers affiliated with the Investment Manager or the Fund's Investment Consultant or Custodian Bank, or otherwise pay any fees, compensation or gratuities to the Fund's Investment Consultant or Custodian.
 8. Each Investment Manager is expected to provide all reasonable information to the Custodian Bank necessary for the timely and effective management and trade settlement of its account, including information on trades, cash balances, and pricing discrepancies.
 9. Unless otherwise provided by the Custodian Bank through a cash sweep vehicle, each Investment Manager will invest cash reserves in permissible cash equivalent securities in order to minimize uninvested cash balances.
 10. All investment transactions shall be completed on a best price, best execution basis (see Section XII (C) for a more complete discussion on brokerage programs and best execution). Understanding that the Investment Managers, as fiduciaries, have the responsibility to execute all transactions in the best

interest of the Fund, the Board reserves the right to set specific brokerage policies as follows:

- All separate account, domestic equity managers shall manage the commissions paid by the Fund to not exceed a targeted, annual average, of three cents per share for large capitalization portfolios and four cents per share for small-mid capitalization portfolios

11. The Pension Trustees have delegated to each Investment Manager the responsibility to vote any and all proxies. The Investment Managers have the responsibility to vote solely in the best interest of the Fund's participants and to protect the value of the securities within the Fund. Each Investment Manager is responsible for maintaining accurate records on how each proxy is voted. See Section XI for a more complete discussion on proxy voting policies and the responsibilities of the Investment Managers for the implementation of such policies.

12. Investment managers are also responsible for providing the Fund with a quarterly update on its investment activities for the Fund as well as appropriate commentary, including but not limited to a discussion on proxy voting and commission recapture activities. See Section XI (B) for further discussion on the contents of the Quarterly Investment Manager's Report.

C. Board of Pension Trustees.

The Board of Pension Trustees has the sole authority and responsibility for the investment of Police and Fire Pension assets. The Police and Fire Pension Fund Board of Trustees consists of five members, of who, two shall be legal residents of the City appointed by the City Council; one shall be a Police Officer elected by a majority of the Police Officers who are members of the Fund, one shall be a Firefighter elected by a majority of the Firefighters who are members of the Fund, and the fifth is chosen by a majority of the other four members.

The term of the Trustees is two years and they may succeed themselves. The Board has statutory responsibility for the investment of Police and Fire Pension Fund assets, subject to limitations on investments as outlined in Sections 175/185 Florida Statutes and Article 22; Charter, City of Jacksonville. The Board shall discharge its fiduciary duties in accordance with the Florida statutory standards of care as contained in section 215.47(9) Florida Statutes.

Consistent with these duties, the Board is charged with the responsibility to review the Fund's total investment program. As a part of this effort, the Board shall develop and approve a Statement of Investment Policy and provide overall direction in the implementation and execution of such Policy Statement. The Board delegates responsibilities to the Administrator for the implementation of the Statement of Investment Policy and in the provision of administrative oversight of the Investment Managers to ensure that the Board's policies are being properly implemented.

In addition to these duties and responsibilities, the Board retains the authority to

establish general administrative rules and procedures for the effective and efficient administration of all aspects of the Fund's operations that are not inconsistent with the powers and directives of other governing and administrative bodies who retain jurisdiction over such matters.

D. Fund Administrator.

The Administrator is assigned the responsibility of ensuring that the Statement of Investment Policy, along with all other broad policy guidance and directives promulgated by the Board, are being properly implemented.

The Administrator of the Fund is also charged with the responsibility for managing and directing all administrative, personnel, budgeting, and support functions, including recommending the strategic and tactical allocation of investment assets in consultation with the Investment Consultant. The Administrator is charged with developing specified Asset Class investment portfolio objectives and policy guidelines, and providing the Board with monthly and quarterly reports of investment activities provided by the Investment Consultant.

The Administrator has the responsibility for recommending policies for maintaining diversified portfolios and maximizing returns with respect to the broad diversified market standards of individual Asset Classes, consistent with appropriate risk constraints. The Administrator is responsible for recommending changes respecting the appropriateness of the goals and objectives in this Plan in light of actuarial studies and recommending timely changes to the Board when appropriate. The Administrator is also responsible for ensuring that an appropriate system of internal controls is developed to safeguard the assets of the Fund.

E. City Treasurer.

The City Treasurer is also Treasurer of the Fund and is responsible for the reconciliation of bank statements relating to the Fund's Equity in City Pooled Cash, the administration of certain wire transfers and ACH payments, the issuance of stop pays and replacements, the provision of check stock, the printing of pension payroll checks and the affixing of facsimile signatures thereto.

F. Investment Consultant.

The primary duty of the Investment Consultant (hereinafter "Consultant") is to provide investment advice to the Board and to assist the Fund Administrator and staff in the implementation of the Board's directives and management of the investment process. This includes meeting regularly with the Board to provide information, market perspective, and evaluation as to the Fund's goals, objectives, limitations, investment structure and investment performance as a part of the overall development, implementation and monitoring of a diversified investment portfolio.

Specific duties of the Investment Consultant include:

- Making recommendations to the Board of appropriate actions which will

enhance the probability of achieving Fund objectives such as use of various asset classes, implementation of investment strategy, changes in investment policy, and changes in investment managers or other service providers;

- Assist the Board in developing appropriate asset mixes through the development of regular asset-liability studies;
- Assisting the Board in deploying an appropriate asset mix through the development of specific investment strategies and supporting policies;
- Making recommendations to the Board with respect to rebalancing;
- Providing comprehensive evaluation of the investment results of the Fund and its individual asset managers in light of this Policy;
- Notifying the Board of changes in the structure, personnel, ownership, or process of managers serving the Fund;
- Conducting searches for investment managers and other service providers as necessary and making recommendations for such positions;
- Disclosing potential conflicts of interest as they become known; and
- Providing ad hoc investment research and other support as may be necessary to support the board's educational and informational needs.

The standard of prudence to be exercised by the Consultant shall be the "prudent investor rule", as described in Section 518.11, Florida Statutes.

The Consultant is acknowledged to be a fiduciary, as it relates to its services and advice provided to the Fund. In discharging its contractual responsibilities, the Consultant recognizes that its fundamental obligations are to the Board and the members of the Fund, and that it will place the interests of the Board and the members of the Fund above all others. Consistent with this focus, the Consultant will not enter into any agreement or take any action contrary to its fundamental responsibilities and obligations.

One of the fundamental roles of the Consultant is to provide an independent, unbiased perspective on the Fund's goals, structure, policies, performance and managers. In preserving and maintaining this independent advisory role, the Consultant shall ensure that through words, deeds, and financial relationships, it is insulated from conflicts of interest. In this regard, the Consultant has an affirmative duty of full and fair disclosure of all material facts to the Fund regarding all issues and relationships that relate to the subject of independence and conflict of interest.

The Consultant additionally maintains an obligation to the Board to disclose all forms of pertinent information on Investment Managers employed by the Board, various sources of the Consultant's compensation, and other aspects of the Fund's investment program that a reasonable person in like posture would deem pertinent to the Board's area of interest and concerns.

In an effort to avoid any appearance of conflicts of interest and to maintain the highest degree of objectivity and independence, the brokerage affiliate(s) of the Investment Consultant shall not be eligible to participate in the Fund's Transition Management Programs authorized from time to time by the Trustees.

G. Other External Service Providers.

1. The Fund shall retain an Actuary to prepare actuarial valuations and impact statements as well as periodic reviews of actuarial assumptions and experience of the Fund.
2. The Fund shall retain accounting professionals to independently audit financial records and review internal controls.
3. The Fund shall retain legal counsel to provide support for the legal needs of the Fund.

IX. FUND PERFORMANCE MEASUREMENT STANDARDS:

A. Scope of Assessment.

The investment performance of the pension assets will be measured by an independent performance measurement firm (the "Investment Consultant") and evaluated on a monthly basis to determine whether:

1. The Total Fund and Investment Managers performed in adherence to the investment policy guidelines set forth herein.
2. The Investment Managers have employed the investment philosophy or style of investing that they were hired to perform.
3. The Total Fund and Investment Managers performed satisfactorily when compared to the objectives identified in this Statement, in addition to the returns generated by similarly managed funds.

B. Long Term Evaluation.

The measurement period for the long-term evaluation of investment performance will be rolling three to five year periods and thereby approximating a complete market cycles. Market cycles are defined to include a full rising and declining market cycle, with the rising leg generally defined as a period of at least three consecutive quarters of rising stock prices and the declining leg generally defined as a period of at least three consecutive quarters of declining stock prices.

C. Benchmark Comparisons.

The Board shall establish performance standards for each Investment Manager in each Asset Class and Investment Style. Such performance standards or benchmark comparisons shall be reduced to writing and shall be included within the investment advisory agreement executed between the Board and the Investment Manager. Said performance standards shall be reviewed on not less than an annual basis.

The investment returns generated on the various categories of pension assets shall

be compared against the following benchmarks, indicators and peer groups. In addition to the evaluation of investment returns, the level of risk assumed by the total fund and the individual portfolios will be examined.

1. Total Fund:
 - a. Strategically Targeted Index or Target Portfolio:

- 35 - 20% - 22.5% - 10% - 5% - 7.5%	- Russell 3000 Index - MSCI AC World ex US - Barclays Capital Aggregate - NCREIF Property Index –ODCE - NCREIF Property Index - S&P Index
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 - b. A database of similarly managed funds (As measured by the Investment Consultant).
 - c. The actuarial interest assumption for rate of return.
 - d. The Consumer Price Index (CPI-U) as a broad measure of inflation.
2. Asset Class:
 - a. The Russell 3000 Index (for overall composite performance of domestic equities).
 - b. The MSCI AC World ex US Index (for overall composite performance of international equities).
 - c. The Barclays Capital Aggregate (for overall composite performance of domestic fixed income).
 - d. The NCREIF Property Index - ODCE (for Core real estate investments).
 - e. The average 90 - Day Treasury Bill Rate (for cash equivalents).
3. Equity Investment Managers:
 - a. The Russell 1000 Index (for the Large Cap Core Style and Composite Large Cap allocations).
 - b. The Russell 1000 Growth Index (for the Large Cap Growth Style).
 - c. The Russell 1000 Value Index (for the Large Cap Value Style).
 - d. The Russell 2000 Index (for the Composite Small Cap allocations).
 - e. The Russell 2000 Growth Index (for the Small Cap Growth Style).

- f. The Russell 2000 Value Index (for the Small Cap Value Style).
 - g. The Russell 2500 Index (for the Composite SMID Cap Style and Composite SMID Cap Allocations).
 - h. The Russell 2500 Growth Index (for the SMID Cap Growth Style).
 - i. The Russell 2500 Value Index (for the SMID Cap Value Style).
 - j. The Standard and Poor's 500 Index (for the S&P 500 Index account and certain other Large Cap Core strategies).
 - k. The MSCI EAFE Value Index (for the International Equity Value Style).
 - l. The MSCI EAFE Growth Index (for the International Equity Growth Style).
 - m. MSCI Global Emerging Markets (for the Emerging Markets Equity Style).
 - n. A peer database of equity funds (as measured by the Investment Consultant).
 - o. A peer database of equity managers employing a similar Investment Style (i.e. Large Cap Growth, Small Cap Value, etc.).
 - p. Specialized indices (where the application of one or more of the above are not appropriate).
4. Fixed Income Investment Managers:
- a. Core or Broad and Specialized Fixed Income Managers:
 - (1) Barclay Capital Aggregate Bond Index
 - (2) A peer database of fixed income funds (as measured by the Investment Consultant).
 - b. Intermediate Fixed Income Manager:
 - (1) Barclay Capital Intermediate Aggregate Bond Index.
 - (2) A peer database of fixed income managers employing a similar Investment Style (as measured by the Investment Performance Consultant).
 - c. Specialized indices (where the application of one or more of the above are not appropriate).
5. Real Estate Managers:

- a. NCREIF Property Index - ODCE (for all Core Real Estate Managers).
 - b. NCREIF Timberland Index (for Timberland Managers).
 - c. Other Real Estate related strategies (e.g. REIT's, MLP's, etc. shall use appropriate indicies).
- 6. Other Alternative Investment Managers.
 - a. Appropriate Alternative Investment Index.

D. Target Goals.

The total investment return performance of the Fund and individual Investment Managers should rank above median when compared to a representative universe of other similarly managed public fund portfolios measured over rolling three to five-year period of time.

E. GIPS Standards.

All investment performance analyses and results shall conform to the GIPS (formerly AIMR) Standards.

X. REPORTING REQUIREMENTS:

A. General Reporting Requirements.

The Board directs the Administrator to coordinate the preparation of monthly, quarterly and annual reports on the investment performance of the Fund by the Board's independent Investment Consultant and to prepare:

- 1. An annual investment report of the Fund to the Division of Retirement and the governing body of the unit of local government.
 - 2. An annual financial report of the Fund's general operations as presented with the report from the independent auditor.
 - 3. A monthly report of investment actions taken.
 - 4. A monthly report of the Commission Recapture and Securities Lending Programs.
 - 5. Special investment reports pursuant to Section 215.47(6) Florida Statutes.
 - 6. Special studies as directed by the Board.
- B. Quarterly Investment Managers Report.

Each Investment Manager employed by the Fund shall prepare and submit a quarterly report on investment and related activities to the Pension Trustees, staff, and the Investment Consultant within forty-five days after the end of each calendar quarter. However, such Investment Managers may be directed by the Trustees to prepare reports on a more frequent basis. Such reports should contain the following information:

1. An analysis of investment holdings including cost and market value.
2. An analysis of securities purchased/sold including gains and losses realized.
3. Investment performance and attribution.
4. An analysis of portfolio characteristics (i.e. by sectors, industries, etc.).
5. Market outlook/economic forecast and market strategy.
6. Any change in the organization or the investment philosophy or strategy to be employed.
7. A report of commission costs, brokers utilized and all portfolio directed brokerage activities.
8. A report of proxy voting activities.
9. Any significant changes in personnel or ownership of the firm.

C. Quarterly Investment Manager Presentations.

Each investment management organization is expected to be available to send a representative, at least quarterly, at a date and time to be designated by the Board, to present a written report of the investment results for the prior quarter. The presentation should generally cover the written quarterly report described above in Section X(B). While quarterly presentations represent the highest level of frequency that should be anticipated by individual investment management organizations, the actual frequency of presentations required by such organizations may in fact be less. The actual frequency and schedule of presentations to be made in person by individual investment management organizations shall be determined by the Pension Trustees who shall direct the attendance of such organizations by invitation. All such Investment Managers who shall be invited to make presentations in person at a regular meeting of the Board shall bear their own costs and expenses in traveling to Board meetings.

D. Monthly and Quarterly Investment Performance Evaluation.

1. The Board of Trustees shall review the investment activities and investment performance of the Fund and each portfolio manager on a regular basis to assure compliance with the goals, objectives and guidelines contained in this Statement of Investment Policy. The Fund's Investment Consultant shall assist

the Board in interpreting investment results and assessing investment manager performance.

2. The Investment Consultant shall be available to attend each monthly meeting of the Board and shall prepare and present at such meetings a monthly flash report, in writing, analyzing the performance of each Investment Manager. Such monthly presentations may be accomplished by conference call or video conferencing. Reports of Quarterly, Annual and multi-year performance shall also be compiled by the Investment Consultant as appropriate. Within such reports, the Investment Consultant shall advise the Board as to the relative performance of each Investment Manager as compared to the various stock, bond and cash indices which are generally accepted in the investment market place. The Investment Consultant shall also make written recommendations at each monthly or quarterly meeting, as needed, regarding the retention or discharge of Investment Managers, asset allocation or recommended changes to the Statement of Investment Policy.
3. Performance benchmarks shall include those stated in this SIP as well as comparisons to similar types of funds with similar market value and asset allocation. Investment performance will be compared using a statistically valid universe provided by the Investment Consultant as authorized by the Board. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this Statement of Investment Policy.
4. While the Board intends to fairly evaluate the portfolio performance, it reserves the right to change Investment Managers, without liability except payment of current charges, for any reason which in the exercise of the Board's discretion is deemed sufficient, including but not limited to those stated below.
 - Change of Board's investment philosophy;
 - Poor results;
 - Failure to meet stated performance goals;
 - Failure to meet Board's communication and reporting requirements;
 - Deviation from the state investment philosophy or style for which the investment management firm was hired; or
 - Change of decision-making personnel or ownership of the investment management firm.

XI. PROXY VOTING POLICY:

A. Background.

The Trustees shall be responsible for exercising all proxies on equity securities held by the Fund. The Trustees shall comply on a voluntary basis with the standards of the Employee Retirement Income Security Act of 1974 ("ERISA") in the voting of proxies.

Proxy voting rights are valuable assets of pension plans as determined by the

Department of Labor in 1988. This determination resulted in the subsequent publication of Interpretive Bulletin 94-1 by the Department of Labor wherein the Department established that it was a duty of employee benefit plan fiduciaries to vote proxies appurtenant to shares of corporate stock held by their plans. As such, there is an inherent fiduciary responsibility to ensure that this asset is being appropriately managed and voted in the best interest of the stock owner. The Pension Trustees recognize the proxy voting decision as a fiduciary responsibility of stock ownership and, as such, exercises its fiduciary obligations under the Prudent Expert Rule.

B. Authority.

The City of Jacksonville grants fiduciary responsibility to the Board by City Charter and by Ordinance. This responsibility requires that a fiduciary act in the same manner as a similarly situated prudent person knowledgeable and familiar in such matters. The Pension Trustees responded to this fiduciary responsibility by assigning and delegating the proxy voting duties to the Investment Managers.

C. Delegation.

The Board shall, by contract or other agreement, provide for the delegation of proxy voting responsibilities to the various Investment Managers and the Trustees shall monitor the voting of the Investment Managers. Upon the delegation of such proxy voting responsibilities, each Investment Manager shall concurrently assume the related liability for making proxy voting decisions. This delegation on the part of the Board is based primarily upon the theory that since the Investment Manager's expertise led to the selection of the stock, the Investment Managers could most knowledgeably vote on proxy issues. Each Investment Manager must independently make proxy voting decisions based on its own analysis. Nothing contained within the Board's policy shall direct an Investment Manager on how to vote proxies, nor will the Board exercise undo influence over any proxy voting decisions.

D. Procedure.

The Investment Managers will execute proxies for the Plan pursuant to these written guidelines as adopted by the Board. The Investment Managers cannot be relieved of this delegated authority and have full responsibility and accordingly will be liable for failing to meet the applicable standard of care in voting proxies. Failure to vote proxies without written explanation (for such failure to vote proxies) to the Board or in fulfilling its fiduciary obligations may result in the Investment Manager being terminated from its appointment.

E. Guidelines.

The voting of proxies by the Investment Managers will be executed under the following set of guidelines:

1. Each Investment Manager is required to vote on all proxies received for those

securities held within the investment account under their administration.

2. Appropriate and accurate records of all proxy votes, including the rationale for the voting decision, shall be maintained by the Investment Managers and must be available for the review and inspection of the Trustees and/or any agents acting in their behalf.
3. Voting will be exercised with the care, skill, diligence, and prudence as a knowledgeable expert and the Investment Manager will conduct a thorough and independent investigation of the merits and possible alternatives of each proxy vote. Furthermore, it is the duty of the Investment Manager to vote by weighting the long-term versus the short-term benefits of every proposal.
4. The Investment Managers shall have the responsibility, acting on behalf of the Board, to vote all proxies for the benefit of the Fund assets and their present or future value. At no time will an Investment Manager compromise its undivided loyalty to the interests of the Plan participants and the enhancement of the valuation of Fund assets. Accordingly, in the performance of their proxy voting responsibilities, the Investment Managers shall not accept directions from other parties or vote proxies exclusively for management without an appropriate analysis of the underlying issues.
5. Investment Managers who have a conflict of interest in the exercise of the above described loyalty to the best interest of the Plan participants and the valuation of Fund assets on any proxy voting decision must immediately notify the Trustees and stand aside for the vote. Under such situations, the Board will execute the proxy after a complete examination of the issues and the alternatives.
6. Voting will be exercised in accordance with the provisions of this Investment Policy Statement, or otherwise expressed in a separate written understanding.
7. In a manner consistent with the above described parameters to the Board's guidelines, each Investment Manager should develop and present to the Board a set of Proxy Voting Guidelines for securities held for the Fund. A published and accepted set of Proxy Voting Guidelines will be considered appropriate documentation supporting the rationale for routine matters voted in accordance with such guidelines. All significant proxy voting decisions will require appropriate documentation supporting the rationale for the vote. Managers with no guidelines must provide documentation supporting the rationale on all proxy votes.

F. Records and Reporting.

Each Investment Manager must keep accurate records of its proxy voting activities. These records must be sufficient to allow the Board to carry out its fiduciary responsibility through periodic review of not only the Investment Manager's voting procedures but also the actions on specific situations so as to determine whether the Investment Manager is fulfilling its fiduciary obligations. All such records shall be

maintained in accordance with the Florida Public Records Act which is reflected in Chapter 119 of the Florida Statutes.

Each Investment Manager must match the proxies received with the plan's holdings as of the record date. Provided the Custodian Bank has forwarded the proxy material to the Investment Manager in a timely fashion, each Investment Manager must make a reasonable effort to guarantee that the proxies are received by the organization prior to the voting date.

Investment Managers are required to include a summary of their voting record on significant proxy items within the context of the quarterly investment report submitted to the Board. Investment Managers must be prepared to respond to questions regarding proxy voting from the Board.

G. Adherence to SEC Rules on Proxy Voting by Investment Advisors.

1. Investment advisors possess a fiduciary obligation to their clients when the adviser has been assigned the duty of voting proxies on behalf of such clients. These duties and responsibilities are described in rule 206(4)-6 and rule 204-2 under the Investment Advisors Act of 1940.
2. Under rule 206(4)-6, it is a fraudulent, deceptive, or manipulative act, practice or course of business within the meaning of section 206(4) of the Act for an investment adviser to exercise voting authority with respect to client securities, unless (i) the adviser has adopted and implemented written policies and procedures that are reasonably designed to ensure that the adviser votes proxies in the best interest of its clients, (ii) the adviser describes its proxy voting procedures to its clients and provides copies on request, and (iii) the adviser discloses to clients how they may obtain information on how the adviser voted their proxies.
3. Under rule 204-2, advisers must retain (i) their proxy voting policies and procedures; (ii) proxy statements received regarding client securities; (iii) records of votes they cast on behalf of clients; (iv) records of client requests for proxy voting information, and (v) any documents prepared by the adviser that were material to making a decision how to vote, or that memorialized the basis for the decision.

XII. OTHER:

A. Annual Audit.

It is the policy of the Board of Pension Trustees to retain an independent Certified Public Accountant for the preparation of an annual financial report.

B. Asset Values.

The market value of the assets for accounting purposes, actuarial purposes, payment of Investment Managers, and for purposes of measuring investment

performance shall be based upon the market value assigned by the Custodian Bank as adjusted by the Investment Consultant.

C. Soft Dollar Arrangements of Advisors and Commission Recapture/Directed Brokerage Programs and Best Execution.

The Fund fully expects that all "soft dollar" practices and arrangements developed by the Fund's investment advisors and their broker-dealers shall conform to the safe harbor protections described in Section 28(e) of the Securities and Exchange Act of 1934. Adherence to such safe harbor provisions protect advisors from client claims that they had breached their fiduciary duties in causing a client to pay more than the lowest commission rates if the advisor determines in good faith that the commission is reasonable in relation to the value of the brokerage and research services provided. In accordance with these provisions, advisors should not acquire products and services other than brokerage or research pursuant to soft dollar arrangements. Eligible research products and services are represented by lawful and appropriate assistance to the money manager in carrying out his investment decision-making responsibilities. Departures from these standards may constitute violations of the advisor's fiduciary duties to the Fund as well as a violation of federal securities laws. Investment advisors must also disclose certain information about their brokerage allocation policies in items 12 and 13 of Part II of Form ADV.

Advisors have an obligation to obtain the best execution of securities transactions when they arrange for or execute trades on behalf of clients or customers. In the pursuit of this standard, advisors have an obligation to act in the best interest of their clients and to place the clients interest before their own. Advisors also have an affirmative duty of full and fair disclosure of all material facts to their clients regarding brokerage policies. However, advisors are not obligated to obtain the lowest possible commission cost, but rather should seek to obtain the most favorable terms for a clients transaction reasonably available under the circumstances. In the context of soft dollars, a money manager should consider the full range and quality of a broker's services in placing brokerage, including, among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness to the money manager. The brokerage commission includes the actual cost of the trading function; principally executing the trade; clearing; settling; custody; and the brokerage firm's profit. The brokerage firm may give up part of their profit to provide credits for investment managers who use these credits to pay for research and/or other costs associated with the investment process. The commission dollars that a brokerage firm relinquishes in this manner are termed "soft dollars". In "soft dollar" arrangements, an investment advisor selects the brokers that will execute trades and provide research and other services to the advisor. In contrast, a "commission recapture" or "directed brokerage" arrangement (terms used interchangeably), is a process whereby pension plans receive a rebate resulting from brokerage transactions incurred through the pension plans' investment managers. This rebate represents a portion of commissions (equity trades) or spreads (fixed income trades) charged on these investment transactions. Under these arrangements, the pension plan asks its advisor, subject to the advisor's satisfaction that the pension plan is receiving best execution, to direct commission business to a particular broker(s) that

has agreed to provide services, pay obligations, or make cash rebates to the client. The Commission Recapture Program established by the Fund, shall be limited to cash rebates made payable to the Fund and/or the Fund's Custodian Bank and fully reported as commission recapture revenues within the Fund's financial reporting system. Commission Recapture distributions shall not be accepted by the Fund in the form of payments on behalf of the Fund for goods and services to third parties or for services provided by the broker.

All trades that are administered by the investment advisor under the Commission Recapture Program established by the Fund shall be subject to the requirement to procure best execution on behalf of the Fund. In pursuing this standard, all securities transactions shall be executed only on a "best price and execution basis" (as described by ERISA Technical Release Number 86-1) and when in the best interest of the Plan. If the advisor concludes in his judgment that the commission recapture broker(s) is not offering best execution, the advisor possesses a fiduciary obligation to seek other brokers to accomplish the desired transaction. Advisors may also employ the use of "step-out" trades* in the event that the advisor has concerns as to his ability to obtain best execution through a commission recapture broker.

The Fund has entered into commission recapture arrangements with several different brokers so as to provide a range of choices to investment advisors in their efforts and responsibilities to seek best execution. The Fund will make the listing of commission recapture brokers known to the various investment advisors; however, the Fund will not stipulate or dictate the level of commission dollars to be processed through the Fund's commission recapture arrangements. The level of commission dollars to be recaptured is solely based upon the judgment of the investment advisor.

When a manager is considering a series of security transactions and is contemplating the use of a mixture of directed and non-directed trades, the manager would frequently package the non-directed trades together as a block, and then initiate the directed trades individually. The first block of non-directed trades would frequently get a better price than the later individual directed trades, causing less than best execution for the directed trades. These potential disadvantages through the use of individual directed trades may be mitigated through the use of "step-out" trades. Under this mechanism, managers ask non-directed brokers to transfer (step-out) a certain percentage of transactions to directed brokers. Thus, directed transactions get the same execution as non-directed transactions, in addition to plan sponsors getting their directed rebate.

D. Transition Management.

The Board reserves the discretion to authorize the use of a Transaction Management Program in conjunction with a change in investment manager relationships on a case by case basis. However, in the event that the Trustees elect to pursue a Transaction Management Program, the brokerage firm which is authorized to administer the transaction shall in no way be affiliated with the Fund's Investment Consultant.

E. Written Contracts.

Each Investment Manager shall enter into a written contract with the Board, unless a pooled account governed by its own prospectus or trust document, so the following applies. Each contract shall include an acknowledgment by the Investment Manager that it is familiar with the Ordinances of the City of Jacksonville and the provisions of Florida Statutes Chapters 112, 175 and 185. Said contracts shall also provide that the Investment Manager shall make no purchases of securities that are prohibited by law and, in the event such a purchase is made, shall make the Fund whole for any loss incurred in the divestiture of said investment. Said contract shall also provide that the laws of Florida shall govern and that venue for any legal action shall be in Duval County, Florida. Said written contract shall also provide that in the event legal action is necessary by the Fund to enforce said contract that the Investment Manager shall, in the event the Fund prevails, reimburse the Fund for its reasonable costs and attorneys fees. All written contracts shall set forth a specific duration, but in no event shall any contract be terminative on less than 10 days written notice. Each contract shall set forth with specificity the fees charged by the Investment Manager to the Fund. All Investment Manager contracts shall further set forth that the Investment Manager is registered as an Investment Advisor under the Investment Advisors Act of 1940, (unless exempted from such registration due to the Investment Manager being a bank as defined in the Act or a qualifying insurance company or for other reasons that may be approved by the Trustees on a case by case basis) and is qualified by law to engage in the management of the assets which are the subject of the contract. All written contracts shall be executed by the Chairman and Secretary of the Fund and attested by the Fund Administrator. The Statement of Investment Policy adopted by the Board shall be attached to each Investment Manager contract and incorporated by reference.

F. Applicability to Pooled Accounts.

The assets of the Fund are primarily administered under the "separate account" form of investment management. However, the Board may also elect to allocate assets to a "pooled account" investment product. The "pooled account" form of investment management may take the form of a Commingled Trust, Mutual Fund, Index Fund, or similar collective investment product. Such "pooled accounts" frequently are administered pursuant to a defined statement of investment policy and set of operating guidelines that govern all participants of the "pooled account". To the extent that the Board elects to participate in one or more of such "pooled accounts", the board concurrently agrees to adopt the statement of investment policy and operating guidelines of the "pooled account" as the parameters and principles that will govern the administration of the Fund's participation in the "pooled account", notwithstanding the Statement of Investment Policy described herein. However, the Statement of Investment Policy described herein shall be followed to the extent that such parameters and principles contained therein are not inconsistent with the provisions of the statement of investment policy and operating guidelines of the "pooled account" investment product selected by the Board.

G. Board Approval Date.

The general structure of the Fund's Statement of Investment Policy described herein was approved, by action of the Board of Trustees on November 18, 1999. Minor modifications to the Statement of Investment Policy were enacted by action of the Board on March 16, 2000 and August 16, 2000. Additional modifications to the Investment Policy Statement were adopted by the Trustees on May 20, 2004. Major modifications to the Statement of Investment Policy were adopted by the Trustees on June 16, 2009. The current form of the Statement of Investment Policy was adopted by the Trustees on December 20, 2012.

XIII. DEFINITIONS:

Actuarial Rate of Return: The total rate of return (currently 8.5%) assumed for the investment portfolio of the Fund by the Fund Actuary in the development of Actuarial Valuations prepared for the Fund.

Actuary or Fund Actuary: The person or firm who is trained in actuarial science and assigned by the Fund to prepare actuarial valuations, impact statements and periodic reviews of actuarial assumptions and experience of the Fund.

Administrator or Fund Administrator: The Administrator of the Fund is appointed by the Board as the chief management official in charge of supervising and directing all administrative, personnel, budgeting and support functions, including recommending the strategic and tactical allocation of investment assets through interfacing with Investment Managers and the Investment Consultant.

Asset Allocation: Pension systems are invested in different categories of investments (such as stocks, bonds, and real estate). The division of the total portfolio into different percentages for each asset is sometimes called the asset allocation.

Asset Class(es): An Asset Class is an aggregation of one or more portfolios with the same principal Asset Type. For example, all of the portfolios whose principal Asset Type was stocks, would be aggregated together as the stock Asset Class. As such, it would contain primarily - but not exclusively - the principal Asset Type.

Asset Type(s): An Asset Type is a category of investment instruments such as common stocks or bonds.

Board of (Pension) Trustees or "Board" or "Trustees" or "Pension Trustees": The Board of Pension Trustees is the sole governing authority and responsible for the management of Jacksonville Police and Fire Pension Fund assets. The Jacksonville Police and Fire Pension Fund Board of Trustees is composed of five members whose makeup consists of: (1) two appointees by the City Council; (2) a third member who is a Police Officer elected by a majority of the Police Officers who are members of the Fund; (3) a fourth member who is a Firefighter elected by a majority of the Firefighters who are members of the Fund and; (4) a fifth member who is chosen by a majority of the other four members.

Cash-Equivalents: Short-term, high-quality securities that produce a rate of return reflective of money market interest rates. Cash-equivalent securities typically mature in

less than one year. Examples include U.S. Treasury bills, short-term government securities, bank certificates of deposit, commercial paper, repurchase agreements, and similar instruments.

Common Stocks: Shares of ownership in private corporations. Stocks are one form of equity, which means that the owner is entitled to an individual share of the ownership of the corporation. Unlike preferred stocks, which usually pay a predetermined dividend and may offer special security in the event of bankruptcy, common stocks offer no such protection. In return, common shareholders receive the benefits whenever profits exceed the claims of lenders and preferred shareholders.

Custodian Bank: The banking institution who is responsible for maintaining custody over the Fund's investments and in managing the Fund's securities lending program.

Correlation: A statistical relationship between two assets. It measures the degree to which two assets move in the same direction, either positively or negatively. Perfectly correlated assets would increase in identical proportions whereas inversely related assets move in opposite directions.

Diversification: The systematic purchase or holding of multiple securities to preclude large losses arising from adverse developments in any one security.

Fixed-Income Securities: Investment instruments that promise to pay a future return to the investor which is set in advance. Included are bonds, which usually pay a fixed coupon interest rate every six months; mortgages and mortgage securities, which repay investors as homeowners and borrowers make their payments of interest and principal; guaranteed investment contracts (GICs); and other vehicles that are traded in the credit markets.

Fund: The Jacksonville Police and Fire Pension Fund.

Growth Stocks: Investment styles are frequently categorized along two dimensions: size of companies the money manager invests in (small, medium, or large corporations, measured by the aggregate value of each corporation's market capitalization) and stock characteristics (value, growth, or core). Growth money managers specialize in selecting high-growth stocks (often characterized by high price-to-book or price-to-earnings ratios), value managers in stocks with correspondingly low ratios, and core managers operate in both niches.

Investment Manager: An Investment Manager is a fiduciary (other than a Trustee) who has been contractually granted the power to manage, acquire, or dispose any assets of the Fund in accordance with the policy guidelines and objectives set forth by the Board and initiates written communication with the Board regarding all significant matters pertaining to the investment Fund assets. The Investment Manager must be (i) registered as an investment advisor under the Investment Advisors Act of 1940; or (ii) is a bank, as defined in that Act; or (iii) is an insurance company qualified to perform services described in subparagraph (A) of the Act under the laws of more than one State; or a non-registered entity as may be approved by the Trustees on a case by case basis.

Investment Style(s): An investment Style represents the general approach to investing employed by a particular Investment Manager (i.e. Large Cap Growth Equity Investment Style).

Jacksonville Police and Fire Pension Fund or “Fund” or “PFPF”: An independent governmental trust which performs administrative and investment management services for the Police Officers and Firefighters of the City of Jacksonville who comprise its membership as specified through statute law and City Ordinances as a defined benefit Plan.

NCREIF Property Index: The NCREIF Property Index was initially developed by the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Frank Russell Company. NCREIF is a non-profit association which represents the institutional real estate industry. There are currently 74 NCREIF contributors including banks, insurance companies and independent advisors. Beginning with the first quarter of 1995, NCREIF has produced the index entirely on its own. The purpose of the index is to serve as a benchmark for performance measurement of real estate owned by tax-exempt institutions and held in a fiduciary environment. The index tracks the income, appreciation and total return for a portfolio of unleveraged, institutional quality property. Sub-indices track the performance of four different property types (office, retail, industrial and apartment) within four geographical areas (east, west, south and midwest). NCREIF is also developing a commingled fund database that may be useful for bench marking the non-core portfolio. The property in the index must be investment grade, non-agricultural, income-producing property. Developmental property is excluded. Qualifying properties are added to the database quarterly. Properties which are sold are deleted during the quarter in which the sale takes place (historical data remains). Returns are calculated quarterly on a pre-management fee basis. Each property return is weighted by its market value. The property market value is determined by real estate appraisal methodology, consistently applied. Inception of the index was December 31, 1977. As of March 31, 2009, the index included 6,071 properties valued at \$268.6 billion.

NCREIF Open-End Diversified Core Index-ODCE: The NCREIF-ODCE Index is an index created by NCREIF made up of the returns of 26 open-end commingled funds pursuing a Core investment strategy.

Performance Monitor/Investment Consultant: The Investment Consultant serves in an external general advisory capacity and provides monthly, quarterly, and annual performance evaluation reporting and other related services as required by the Board in adherence to the investment policy guidelines set forth by the Board as implemented by the Fund Administrator.

Portfolio: A portfolio is represented by the group of investment securities that have been assembled and administered by a particular Investment Manager within a single trust account placed with the Custodian Bank. A Portfolio will contain one principal Asset Type (common stocks, for example) but may contain small amounts of other Asset Types as well. The discretion for this mix of Asset Types is set out in guidelines for each portfolio.

Real Estate: For pension investment purposes, real estate usually refers to land and

buildings that can be expected to produce income. Capital appreciation may be a part of the investment strategy, however, real estate is one form of equity investment (the other being stocks).

Strategic (normal) Asset Allocation: A long-term plan for apportioning a pension system's investments among various asset classes. Generally, the strategic asset allocation ignores current market conditions, and focuses instead on long-term investment objectives and risk tolerances.

Tactical Asset Allocation: The deployment of investment assets to take advantage of timely market opportunities or to avoid current investment risks. Unlike strategic allocation, tactical asset allocation decisions involve perceived investment return advantages based upon the stage of the market cycle. Tactical Asset Allocation is not considered to be market timing.

Strategically Targeted Portfolio or Target Index: The Strategically Targeted Portfolio or Target Index represents a composite hypothetical portfolio consisting of a specific mix of the authorized asset classes matching the general asset allocation program embraced by the Fund. The return on this composite portfolio is a weighted average of the returns derived from passive benchmarks by the Fund.

Value Stocks: Investment styles are frequently categorized along two dimensions: size of companies the month manager invests in, and stock characteristics (value, growth, or core). Whereas growth money managers specialize in selecting high-growth stocks (often characterized by high price-to-book or price-to-earnings ratios), value managers invest in stocks with correspondingly low ratios.

Volatility: Fluctuations in the market value or the rate of return of an investment. A highly volatile security is one whose price or yields change dramatically, and therefore fluctuates considerably from the average. Historically, stocks have exhibited greater volatility in their returns than bonds or short-term securities (such as U.S. Treasury bills).

518.11 Investments by fiduciaries; prudent investor rule. -

- (1) A fiduciary has a duty to invest and manage investment assets as follows:
 - (a) The fiduciary has a duty to invest and manage investment assets as a prudent investor would considering the purposes, terms, distribution requirements, and other circumstances of the trust. This standard requires the exercise of reasonable care and caution and is to be applied to investments not in isolation, but in the context of the investment portfolio as a whole and as a part of an overall investment strategy that should incorporate risk and return objectives reasonably suitable to the trust, guardianship, or probate estate. If the fiduciary has special skills, or is named fiduciary on the basis of representations of special skills or expertise, the fiduciary is under a duty to use those skills.
 - (b) No specific investment or course of action is, taken alone, prudent or imprudent. The fiduciary may invest in every kind of property and type of investment, subject to this section. The fiduciary's investment decisions and actions are to be judged in terms of the fiduciary's reasonable business judgment regarding the anticipated effect on the investment portfolio as a whole under the facts and circumstances prevailing at the time of the decision or action. The prudent investor rule is a test of conduct and not of resulting performance.
 - (c) The fiduciary has a duty to diversify the investments unless, under the circumstances, the fiduciary believes reasonably it is in the interests of the beneficiaries and furthers the purposes of the trust, guardianship, or estate not to diversify.
 - (d) The fiduciary has a duty, within a reasonable time after acceptance of the trust, estate, or guardianship, to review the investment portfolio and to make and implement decisions concerning the retention and disposition of original preexisting investments in order to conform to the provisions of this section. The fiduciary's decision to retain or dispose of an asset may be influenced properly by the asset's special relationship or value to the purposes of the trust, estate, or guardianship, or to some or all of the beneficiaries, consistent with the trustee's duty of impartiality, or to the ward.
 - (e) The fiduciary has a duty to pursue an investment strategy that considers both the reasonable production of income and safety of capital, consistent with the fiduciary's duty of impartiality and the purposes of the trust, estate, or guardianship. Whether investments are under productive or over productive of income shall be judged by the portfolio as a whole and not as to any particular asset.
 - (f) The circumstances that the fiduciary may consider in making investment decisions include, without limitation, the general economic conditions, the possible effect of inflation, the expected tax consequences of investment decisions or strategies, the role each investment or course of action plays within the overall portfolio, the expected total return, including both income yield and appreciation of capital, and the duty to incur only reasonable and appropriate costs. The fiduciary may, but need not, consider related trusts, estates, and guardianships, and the income available from other sources to, and the assets of, beneficiaries when making investment decisions.
- (2) The provisions of this section may be expanded, restricted, eliminated, or otherwise altered by express provisions of the governing instrument, whether the instrument was executed before or after the effective date of this section. An express provision need not refer specifically to this statute. The fiduciary is not liable to any person for the fiduciary's reasonable reliance on those express provisions.
- (3) Nothing in this section abrogates or restricts the power of an appropriate court in proper cases:
 - (a) To direct or permit the trustee to deviate from the terms of the governing instrument; or
 - (b) To direct or permit the fiduciary to take or to restrain the fiduciary from taking, any action regarding the making or retention of investments.
- (4) The following terms or comparable language in the investment powers and related provisions of a governing instrument shall be construed as authorizing any investment or strategy permitted under this section: "investments permissible by law for investment of trust funds", "legal investments", "authorized investments", "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital", "prudent trustee rule", "prudent person rule", and "prudent investor rule".
- (5) This section applies to all existing and future fiduciary relationships subject to this section, but only as to acts or omissions occurring after October 1, 1993.

Fiduciary Duties per ERISA Section 404(a)(1)(A) through (C)

ERISA Sec. 403

FIDUCIARY DUTIES

[P 14,740]

Act Sec. 404. (a)(1) Subject to sections 403(c) and (d), 4042, and 4044, a fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and –

(A) for the exclusive purpose of:

(i) providing benefits to participants and their beneficiaries; and

(ii) defraying reasonable expenses of administering the plan;

(B) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

(C) by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(D) in accordance with the documents and instruments governing the plan insofar as such documents and instruments are consistent with the provisions of this title or Title IV.

(2) In the case of an eligible individual account plan (as defined in section 407(d)(3)), the diversification requirement of paragraph (1)(C) and the prudence requirement (only to the extent that it requires diversification) of paragraph (1)(B) is not violated by acquisition or holding of qualifying employer real property or qualifying employer securities (as defined in section 407(d)(4) and (5)).

Investment Policy Standards per Section 112.661, Florida Statutes

112.661 Investment policies. – Investment of the assets of any local retirement system or plan must be consistent with a written investment policy adopted by the board. Such policies shall be structured to maximize the financial return to the retirement system or plan consistent with the risks incumbent in each investment and shall be structured to establish and maintain an appropriate diversification of the retirement system or plan's assets.

(1) SCOPE. – The investment policy shall apply to funds under the control of the board.

(2) INVESTMENT OBJECTIVES – The investment policy shall describe the investment objectives of the board.

(3) PERFORMANCE MEASUREMENT. – The investment policy shall specify performance measures as are appropriate for the nature and size of the assets within the board's custody.

(4) INVESTMENT AND FIDUCIARY STANDARDS. – The investment policy shall describe the level of prudence and ethical standards to be followed by the board in carrying out its investment activities with respect to funds described in this section. The board in performing its investment duties shall comply with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974 at 29 U.S.C. s. 1104(a)(1)(A)-(C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

(5) AUTHORIZED INVESTMENTS. –

(a) The investment policy shall list investment authorized by the board. Investment not listed in the investment policy are prohibited. Unless otherwise authorized by law or ordinance, the investment of the assets of any local retirement system or plan covered by this part shall be subject to the limitations and conditions set forth in s. 215.47(1) –(6), (8), (9), (11) and (17).

(b) If a local retirement system or plan has investments that, on October 1, 2000, either exceed the applicable limit or do not satisfy the applicable investment standard, such excess or investment not in compliance with the policy may be continued until such time as it is economically feasible to dispose of such investment. However, no additional investment may be made in the investment category which exceeds the applicable limit, unless authorized by law or ordinance.

(6) MATURITY AND LIQUIDITY REQUIREMENTS. – The investment policy shall require that the investment portfolio be structured in such manner as to provide sufficient liquidity to pay obligations as they come due. To that end, the investment policy should direct that, to the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

(7) PORTFOLIO COMPOSITION. – The investment policy shall establish guidelines for investments and limits on security issues, issuers, and maturities. Such guidelines shall be commensurate with the nature and size of the funds within the custody of the board.

(8) RISK AND DIVERSIFICATION. – The investment policy shall provide for appropriate diversification of the investment portfolio. Investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary by the board.

(9) EXPECTED ANNUAL RATE OF RETURN. – The investment policy shall require that, for each actuarial valuation, the board 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's sponsor and the consulting actuary. The department shall use this determination only to notify the board, the plan's sponsor, and consulting actuary of material differences between the total expected annual rate of return and the actuarial assumed rate of return.

(10) THIRD-PARTY CUSTODIAL AGREEMENTS. – The investment policy shall provide

appropriate arrangements for the holding of assets of the board. 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.

(11) MASTER REPURCHASE AGREEMENT. – The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

(12) BID REQUIREMENT. – The investment policy shall provide that the board 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.

(13) INTERNAL CONTROLS. – The investment policy shall provide for a system of internal controls and operational procedures. The board shall establish a system of internal controls which shall be in writing and made a part of the board's operational procedures. The policy shall provide for review of such controls by independent certified public accountants as part of any financial audit periodically required of the board's unit of local government. The internal controls should be designed to prevent losses of funds which might arise from fraud, error, misrepresentation by third parties, or imprudent actions by the board or employees of the unit of local government.

(14) CONTINUING EDUCATION. – The investment policy shall provide for the continuing education of the board members in matters relating to investments and the board's responsibilities.

(15) REPORTING. – The investment policy shall provide for appropriate annual or more frequent reporting of investment activities. To that end, the board shall prepare periodic reports for submission to the governing body of the unit of local government which shall include investments in the portfolio by class or type, book value, income earned, and market value as of the report date. Such reports shall be available to the public.

(16) FILING OF INVESTMENT POLICY. – Upon adoption by the board, the investment policy shall be promptly filed with the Department of Management Services and the plan's 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.

(17) VALUATION OF ILLIQUID INVESTMENTS. – The investment policy shall provide for the valuation of illiquid investments for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism. If those investments are utilized, the investment policy must include the criteria set forth in s. 215.47(6), except that submission to the Investment Advisory Council is not required. The investment policy shall require that, for each actuarial valuation, the board must verify the determination of the fair market value for those investments and ascertain that the determination complies with all applicable state and federal requirements. The investment policy shall require that the board disclose to the Department of Management Services and the plan's sponsor each such investment for which the fair market value is not provided.

Authorized Investments Described in Section 215.47, Florida Statutes

215.47 Investments; authorized securities; loan of securities. – Subject to the limitations and conditions of the State Constitution or of the trust agreement relating to a trust fund, moneys available for investments under ss. 215.44-215.53 may be invested as follows:

- (1) Without limitation in:
 - (a) Bonds, notes, or other obligations of the United States or those guaranteed by the United States or for which the credit of the United States is pledged for the payment of the principal and interest or dividends thereof.
 - (b) Bonds, notes, or obligations of any state or organized territory of the United States or the District of Columbia that pledge the full faith and credit of the state, territory, or district; and revenue bonds, notes, or obligations of any state or organized territory of the United States or the District of Columbia additionally secured by the full faith and credit of the state, territory, or district.
 - (c) Bonds, notes, or obligations of the several counties or districts in any state or organized territory of the United States or the District of Columbia containing a pledge of the full faith and credit of the county or district involved.
 - (d) Bonds issued or administered by the State Board of Administration secured solely by a pledge of all or part of the 2-cent constitutional fuel tax accruing under the provisions of s. 16, Art. IX of the State Constitution of 1885, as amended, or of s. 9, Art. XII of the 1968 revised State Constitution.
 - (e) Bonds issued by the State Board of Education pursuant to ss. 18 and 19, Art. XII of the State Constitution of 1885, as amended, or to s. 9 Art. XII of the 1968 revised State Constitution, as amended.
 - (f) Bonds issued by the Florida Outdoor Recreational Development Council pursuant to s. 17, Art. IX of the State Constitution of 1885, as amended.
 - (g) Bonds issued by the Florida State Improvement Commission, Florida Development Commission, Division of Bond Finance of the Department of General Services, or Division of Bond Finance of the State Board of Administration.
 - (h) Savings accounts in, or certificates of deposit of, any bank, savings bank, or savings and loan association incorporated under the laws of this state or organized under the laws of the United States doing business and situated in this state, the accounts of which are insured by the Federal Government or an agency thereof and having a prime quality of the highest letter and numerical ratings as provided for by at least one nationally recognized statistical rating organization, provided such savings accounts and certificates of deposit are secured in the manner prescribed in chapter 280.
 - (i) Notes, bonds, and other obligations of agencies of the United States.
 - (j) Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.
 - (k) Time drafts or bills of exchange drawn on and accepted by a commercial bank, otherwise known as banker's acceptances, which are accepted by a member bank of the Federal Reserve System and are of prime quality of the highest letter and numerical ratings as provided for by at least one nationally recognized statistical rating organization.
 - (l) Negotiable certificates of deposit issued by domestic or foreign financial institutions in United States dollars of prime quality of the highest letter and numerical ratings as provided for by at least one nationally recognized statistical rating organization.
 - (m) Short-term obligations not authorized elsewhere in this section to be purchased individually or in pooled accounts or other collective investment funds, for the purpose of providing liquidity to any fund or portfolio.
 - (n) Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such

investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

(o) Bonds, notes, or obligations described in 26 U.S.C. s. 149(g)(3)(B), if investment in such bonds, notes, or obligations is necessary in order to comply with covenants in documents or proceedings relating to bonds issued pursuant to s. 215.555(6). Investments made pursuant to this paragraph may be purchased only from the proceeds of bonds issued pursuant to s. 215.555(6) and must be authorized under documents or proceedings relating to such bonds.

(2) With no more than 25 percent of any fund in:

(a) Bonds, notes or obligations of any state or organized territory of the United States or the District of Columbia; of any municipality or political subdivision or any agency, district, or authority thereof; or of any agency or authority of this state, if the obligations are rated investment grade by at least one nationally recognized statistical rating organization.

(b) Notes secured by first mortgages, insured or guaranteed by the Federal Housing Administration or the United States Department of Veterans Affairs.

(c) Mortgage securities which represent participation in or are collateralized by mortgage loans secured by real property. Such securities must be issued by an agency of or enterprise sponsored by the United States Government, including, but not limited to, the Government National Mortgage Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation.

(d) Group annuity contracts of the pension investment type with insurers licensed to do business in this state which are rated investment grade by at least one nationally recognized rating service.

(e) Certain interests in real property and related personal property, including mortgages and related instruments on commercial or industrial real property, with provisions for equity or income participation or with provisions for convertibility to equity ownership; and interests in collective investment funds. Associated expenditures for acquisition and operation of assets purchased under this provision or of investments in private equity or other private investment partnerships or limited liability companies shall be included as a part of the cost of the investment.

1. The title to real property acquired under this paragraph shall be vested in the name of the respective fund.

2. For purposes of taxation of property owned by any fund, the provisions of s. 196.199(2)(b) do not apply.

3. Real property acquired under the provisions of this paragraph shall not be considered state lands or public lands and property as defined in chapter 253, and the provisions of that chapter do not apply to such real property.

(f) Fixed-income obligations not otherwise authorized by this section issued by foreign governments or political subdivisions or agencies thereof, supranational agencies, foreign corporations, or foreign commercial entities, if the obligations are rated investment grade by at least one nationally recognized rating service.

(g) A portion of the funds available for investment pursuant to this subsection may be invested in rated or unrated bonds, notes, or instruments backed by the full faith and credit of the government of Israel.

(h) Obligations of agencies of the government of the United States, provided such obligations have been included in and authorized by the Florida Retirement System Defined Benefit Plan Investment Policy Statement established in s. 215.475.

(i) United States dollar-denominated obligations issued by foreign governments, or political subdivisions or agencies thereof, supranational agencies, foreign corporations, or foreign commercial entities.

(j) Asset-backed securities not otherwise authorized by this section.

(3) With no more than 80 percent of any fund in common stock, preferred stock, and interest-bearing obligations of a corporation having an option to convert into common stock,

provided:

(a) The corporation is organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia; or

(b) The corporation is listed on any one or more of the recognized national stock exchanges in the United States and conforms with the periodic reporting requirements under the Securities Exchange Act of 1934.

(c) Not more than 75 percent of the fund may be in internally managed common stock. The board shall not invest more than 10 percent of the equity assets of any fund in the common stock, preferred stock, and interest-bearing obligations having an option to convert into common stock, of any one issuing corporation; and the board shall not invest more than 3 percent of the equity assets of any fund in such securities of any one issuing corporation except to the extent a higher percentage of the same issue is included in a nationally recognized market index, based on market values, at least as broad as the Standard and Poor's Composite Index of 500 Companies, or except upon a specific finding by the board that such higher percentage is in the best interest of the fund.

(4) With no more than 80 percent of any fund, in interest-bearing obligations with a fixed maturity of any corporation or commercial entity within the United States.

(5) With no more than 25 percent of any fund in corporate obligations and securities of any kind of a foreign corporation or a foreign commercial entity having its principal office located in any country other than the United States or its possessions or territories, not including United States dollar-denominated securities listed and traded on a United States exchange which are a part of the ordinary investment strategy of the board.

(6) With no more than 5 percent of any fund to be invested as deemed appropriate by the board, notwithstanding investment limitations otherwise expressed in this section. Prior to the board engaging in any investment activity not otherwise authorized under ss. 215.44-215.53, excluding investments in publicly traded securities, options, financial futures, or similar instruments, the board shall present to the Investment Advisory Council a proposed plan for such investment. Said plan shall include, but not be limited to, the expected benefits and potential risks of such activity; methods for monitoring and measuring the performance of the investment; a complete description of the type, nature, extent and purpose of the investment, including description of issuer, security in which investments proposed to be made, voting rights or lack thereof and control to be acquired, restrictions upon voting, transfer, and other material rights of ownership, and the existence of any contracts, arrangements, understandings, or relationships with any person or entity (naming the same) with respect to the proposed investment; and assurances that sufficient investment expertise is available to the board to properly evaluate and manage such activity. The Investment Advisory Council may obtain independent investment counsel to provide expert advice with regard to such proposed investment activity by the board, and the board shall defray such costs.

(7) The State Board of Administration, consistent with its fiduciary duties, may invest up to 1.5 percent of the net assets of the system trust fund in technology and growth investments of businesses domiciled in this state or businesses whose principal address is in this state. As used in this subsection, the term "technology and growth investments" includes, but is not limited to, space technology, aerospace and aviation engineering, computer technology, renewable energy, and medical and life sciences. For the purposes of this chapter, "life sciences" means the use of information technology, engineering, and biological and chemical sciences for the development and production of goods and services, including, but not limited to, drug development, medical implants and devices, bio-related diagnostic products, bioagriculture technologies, biosecurity, biofuels, and bio-related applications.

(8) For the purpose of determining the above investment limitations, the value of bonds shall be the par value thereof, and the value of evidences of ownership and interest-bearing obligations having an option to convert to ownership shall be the cost thereof.

(9) Investments in any securities authorized by this section may be under repurchase agreements or reverse repurchase agreements.

(10) Investments made by the State Board of Administration shall be designed to maximize

the financial return to the fund consistent with the risks incumbent in each investment and shall be designed to preserve an appropriate diversification of the portfolio. The board shall discharge its duties with respect to a plan solely in the interest of its participants and beneficiaries. The board in performing the above investment duties shall comply with the fiduciary standards set for the in the Employee Retirement Income Security Act of 1974 at 29 U.S.C.s.1104(a)(1)(A) through (C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set for the in this subsection shall prevail.

(11) The board is authorized to buy and sell futures and options, provided the instruments for such purpose are traded on a securities exchange or board of trade regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission, unless the board by rule authorizes a different market.

(12) The board is authorized to invest in domestic or foreign notional principal contracts.

(13) The State Board of Administration, consistent with sound investment policy, may pledge up to 2 percent of the assets of the Florida Retirement System Trust Fund as collateral for housing bonds issued by the State of Florida or its political subdivisions under chapter 159, part V of chapter 420, or chapter 421 as a supplemental income program for the system. With regard to any collateral program, the State Board of Administration is authorized to coordinate or retain other governmental entities of the State of Florida or private entities to administer this program, as well as receive fees for the use of the designated collateral.

(14) The State Board of Administration, consistent with sound investment policy, may invest the earnings accrued and collected upon the investment of the minimum balance of funds required to be maintained in the State Transportation Trust Fund pursuant to s.339.135(6)(b). Such investment shall be limited as provided in s.288.9607(7).

(15) With no more, in the aggregate, than 10 percent of any fund in alternative investments as defined in s.215.44(8)(C)1.a., through participation in the vehicles defined in s.215.44(8)(C)1.b., or in securities or investments that are not publicly traded and are not otherwise authorized by this section.

(16) The State Board of Administration is authorized to invest in domestic and foreign group trusts.

(17) Securities or investments purchased or held under the provisions of this section may be loaned to securities dealers or financial institutions, provided the loan is collateralized by cash or securities having a market value of at least 100 percent of the market value of the securities loaned.

(18) The State Board of Administration may sell short any of the securities and investments authorized under this section.

(19) The State Board of Administration may offer opportunities to small, state-based investment management firms to facilitate their development and growth.

(20) Notwithstanding the provisions in subsection (5) limiting such investments to 25 percent of any fund, the board may invest no more than 35 percent of any fund in corporate obligations and securities of any kind of a foreign corporation or a foreign commercial entity having its principal office located in any country other than the United States or its possessions or territories, not including United States dollar-denominated securities listed and traded on a United States exchange that are a part of the ordinary investment strategy of the board.

Section 215.44 (8)(c)(1) referenced above in 215.47(14) is recited below:

(c)1. As used in this paragraph, the term:

a. "Alternative investment" means an investment by the State Board of Administration in a private equity fund, venture fund, hedge fund, or distress fund or a direct investment in a portfolio company through an investment manager.

b. "Alternative investment vehicle" means the limited partnership, limited liability company, or similar legal structure or investment manager through which the State Board of Administration invests in a portfolio company.

EXHIBIT E

Summary of Historical Statutory Provisions Governing the Authorized Investments of the Jacksonville Police and Fire Pension Fund

A. Authorizations under Chapter 18615, Laws of Florida, Acts of 1937.

The investment of funds for the Police and Fire Pension Fund was originally established pursuant to the enactment of Section 4, Chapter 18615, Laws of Florida, Acts of 1937. These provisions have been amended on a number of occasions since 1937. The wording of Section 4 of this act, as amended, is quoted as follows: The Board shall have the power to:

1. Be the sole entity responsible for administering the Jacksonville Police and Fire Pension Fund.
2. Invest and reinvest the assets of pension fund in:
 - a. Time or savings accounts of a national bank, a state bank insured by the Federal Deposit Insurance Corporation, or a savings and loan association insured by the Federal Savings and Loan Insurance Corporation.
 - b. Obligations of the United States or obligations guaranteed as to principal and interest by the United States.
 - c. Bonds issued by the State of Israel.
 - d. Bonds, stocks, or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia, provided the stock of the corporation is listed on any one or more of the national stock exchanges and the bonds hold a rating in one of the three highest classifications by a major rating service; and the board of trustees shall not invest more than 5 percent of its assets in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5 percent of the outstanding capital stock of the company, nor shall the aggregate of its investments under this paragraph exceed 50 percent of the fund's assets in bonds, or 60 percent of the fund's assets in common stocks, or investments authorized by general law of the State of Florida for public pension funds. Such investments must be recommended by either a competent nationally recognized investment counseling firm or a corporate trustee who is nationally recognized in pension fund investments.
 - e. At no time shall the investment in real estate and real estate related securities exceed 10 percent of the book value of the fund. Such investments must be recommended by either a competent nationally recognized investment firm or a corporate trustee who is nationally recognized in pension fund investments.

B. Authorizations under Sections 175.071 and 185.06, Florida Statutes.

During the 1960's, the State of Florida established a program wherein police officer and firefighter pension plan throughout the State could enjoy the distribution of state revenues that were based upon the collection of premium taxes assessed against casualty insurance

premiums paid by Florida residents (i.e. "Chapter Funds"). As a condition of receiving such (Chapter Fund) revenues, the recipient pension plans were obliged to adhere to certain investment guidelines. These investment guidelines are reflected in Sections 175.071 and 185.06, Florida Statutes, for firefighter and municipal police officers pension trust funds, respectively. These authorizations may expand the authorized classes of investments reflected in the 1937 Special Act of the Legislature. Senate Bill 1462 was enacted by the Florida Legislature during the 1998 legislative session with an effective date of October 1, 1998. Senate Bill 1462 (designated Chapter 98-134) implemented a number of modifications to Sections 175.071 and 185.06, Florida Statutes. Material modifications include authorizations providing for greater levels of equity investments without a required variance in the approved investment procedures and an authorization to invest up to 10% of plan assets in foreign securities. Local Law Plans have heretofore been permitted to secure certain variances on the investment authorizations and procedures reflected in Sections 175.071 and 185.06, Florida Statutes, by municipal ordinance, Special Act of the Legislature, or resolution of a special fire control district (where applicable), with the exception of the 10% limitation on foreign securities. The 10% limit on foreign securities was subsequently increased to 25% by action of the Florida Legislature during the 2009 Legislative Session which amended the provisions of 175.071 and 185.06 (see HB5/SB538). The City of Jacksonville Police and Fire Pension Fund, as a Local Law Plan, has previously secured variances to Sections 175.071 and 185.06, Florida Statutes. Such variances include an exception to the 50% limitation on equity investments that would otherwise be in effect by alternatively authorizing a 60% limitation on equity investments pursuant to the enactment of HB2265 and HB2417 during the 1996 State legislative session. Earlier variances provided for the authorization of investments in real estate and real estate related securities in amounts not to exceed 10% of the book value of the Fund; which was subsequently increased to 20% of the book value of the Fund by action of the Florida Legislature during the 2009 Legislative Session (see HB877).

C. Authorizations under Section 22.04(b) of Jacksonville City Charter.

As previously mentioned in the above discussion for Section 175.071 and 185.06, Florida Statutes, a Local Law Plan may expand the scope of investment options (other than the revised 20% limit for foreign securities reflected in 175.071 and 185.06, Florida Statutes) pursuant to the enactment of a municipal ordinance or Special Act of the Legislature. The Fund pursued this method of expanding the scope of its investment options by seeking changes to Section 22 of the Jacksonville City Charter, which must additionally be adopted by the State Legislature. Such expansions were initially authorized by the Jacksonville City Council pursuant to the enactment of Resolution 2004-1175-A. This legislation was subsequently introduced into the Florida Legislature as SB1309 and signed into law on June 8, 2005 as Chapter 2005-330, Laws of Florida. This modification effectively incorporated by reference, the scope of investments authorized in Section 215.47, Florida Statutes, with certain restrictions. Notwithstanding this authorization, the Fund agreed to defer the implementation of the expanded investment authorizations reflected in the amended City Charter (Chapter 2005-330, Laws of Florida) until such time as a state-wide version of the Jacksonville expansions could be considered by the Florida Legislature. This deferral was based upon certain discussions with the State of Florida Department of Management Services, Division of Retirement, who had identified certain legal technical barriers to the immediate implementation of the investment changes sought by the Fund.

The state-wide version of the deferred Jacksonville expansions was considered by the Florida Legislature during the 2007 Legislature Session as HB3 and SB 198. However, the 2007 Session ended before action was taken on these bills. Similar action was presented to and considered by the State Legislature during the 2008, 2009 and 2010 Sessions with the

same result of no action being taken. The failure of the Florida Legislature to act upon these bills that would have permitted police and fire pension plans to adopt the permitted elements of Section 215.47, Florida Statutes, prompted the Fund to file the legal action described in Section V of the SIP.

In accordance with Section 22.04(b) of the Jacksonville City Charter, as amended by Chapter 2005-330, the Board shall have the power (subject to the successful resolution of legal action filed against the State) to invest and reinvest the assets of the pension fund in:

1. Any lawful investment as provided in applicable provisions of Section 215.47, Florida Statutes, provided the investment is permitted in the written investment policy adopted by the Board as provided in Chapter 112, Part VII, Florida Statutes.
2. Notwithstanding anything to the contrary in the applicable provisions of Section 215.47, Florida Statutes, investments in fixed real estate assets shall not exceed 20 percent of the assets of the Plan, at cost.
3. Investment Plan (or Statement of Investment Policy).
 - a. In making investments for the Plan, the Board shall make no investment after June 30, 1996, which is not in conformance with the Plan's Investment Plan. The Investment Plan must include, among other items: the investment objectives; permitted types of securities in which the Board may invest and the limits thereof; the types of securities in which the Board may not invest; the types of securities which may be leveraged or used in leveraging transactions and the limits thereof; if funds are borrowed, the limits thereof and purpose; the criteria to measure annual investment performance; and any other applicable criteria established by the Board.
 - b. The Investment Plan shall be developed by the Plan Administrator and shall be approved by the Board. Upon adoption by the Board, the Investment Plan and any amendments shall be promptly filed with the Division of Retirement, and the Plan's Sponsor and Plan Actuary.
 - c. The effective date of the Investment Plan shall be the 31st calendar day following the filing date with the Plan Sponsor. Investments permitted by the Investment Plan shall not be made prior to the effective date of the Investment Plan.
 - d. The Investment Plan may be amended at any time subject to ss. (b) and (c).
 - e. For each illiquid investment (an investment for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism) the Investment Plan shall: include the criteria set forth in s.215.47(6), Florida Statutes; require a statement as to the additional expected yield anticipated to compensate the Plan for the additional risk of such investment which additional yield is not available from an investment for which there is a generally recognized market; require the Board to verify the determination of the fair market value for each such investment as of each date as of which an actuarial valuation is prepared and that the determination complies with all applicable state and federal requirements; and require the Board to disclose to the Division of Retirement and the Plan's Sponsor each such investment as of each date as of which an actuarial valuation is prepared for which the fair market value is not provided.

- f. Immediately prior to the date as of which each actuarial valuation is prepared, the Board shall determine the total expected annual rate of return for the Plan's assets for the year beginning with the date as of which the actuarial valuation is prepared, for each of the next several years and for the long-term thereafter. This determination shall be promptly filed with the Division of Retirement, and the Plan's Sponsor and Plan Actuary.

D. Authorizations under Section 215.47, Florida Statutes.

The Florida Retirement System (through the State Board of Administration) and various local retirement systems established throughout the State of Florida have heretofore enjoyed the ability to conduct their investment programs in accordance with the limitations prescribed by Section 215.47, Florida Statutes. The ability of various local retirement systems to follow the generally expanded investment authorizations provided in Section 215.47 was granted in conjunction with the enactment of Section 112.661, Florida Statutes. Section 112.661 established the requirement that the assets of local retirement systems shall be invested in accordance with an Investment Policy Statement and such section additionally incorporated by reference, the investment authorizations reflected in Section 215.47 (1)-(8), (10) and (16), Florida Statutes. Section 112.661 (5)(a) further provides that the enactment of additional laws or ordinances may further expand the range of authorized investments that may be undertaken by local retirement systems beyond those general investment limitations described under Section 215.47 (1)-(8), (10) and (16).

While the Florida Retirement System and various local retirement systems established throughout the State for general employee plan participants were authorized (based upon the language in Section 112.661, Florida Statutes) to expand the scope of their investment programs in accordance with the permitted elements of Section 215.47, police officer and firefighter pension plans who agreed to accept Chapter Funds were barred from such permitted investments and were alternatively compelled to adhere to the more restrictive program of investments described in Sections 175.071 and 185.06.

While the other police and fire pension plans are currently barred from adopting the permitted elements of 215.47, Florida Statutes, the Jacksonville Police and Fire Pension Fund is positioned to be exempt from the prohibitions extended to other police and fire pension plans. This posture emerges from the actions of the Florida Legislature during the 2005 Legislative Session in enacting Chapter 2005-330, Laws of Florida (HB1309). This legislation amended the City Charter to specifically allow the Fund to pursue the permitted elements of 215.47. A State Agency challenged the ability of the Fund to implement the expanded investment capabilities of 215.47. In response to this challenge, the Fund filed a lawsuit against the State. Once a favorable resolution to this lawsuit is secured, the Trustees have taken the position that the Fund is automatically considered to have adopted the applicable elements of 215.47 as authorized investments of the Fund without the need to undertake further amendments to the SIP.

A favorable resolution to this lawsuit was secured in June, 2010 by a judicial ruling issued by the Circuit Court of the Second Judicial Circuit, in and for Leon County, Florida that the Fund did in fact possess the legal authority to pursue the permissible elements of 215.47, Florida Statutes under 112.661, Florida Statutes (see Final Declaratory Judgment attached hereto as Exhibit H).

SAMPLE INVESTMENT MANAGER INSTRUCTIONS

Policy:

The portfolio under the supervision of sample manager is intended to be a domestic equity portfolio.

Sample manager has been hired to pursue an investment style, which the Board had defined as a large cap value, domestic equity style. The Board has elected this investment style to be different, yet complement the other domestic equity managers employed. Sample manager is expected to produce investment returns that are 100 basis points over the Russell 1000 Value Index on an annualized basis over rolling three to five year periods, net of fees and rank above median compared to their style peers over the same period. It is understood that investment returns are not guaranteed.

Guidelines:

- A. The portfolio shall be a large cap value, domestic equity portfolio. Sample manager may purchase short-term cash equivalent instruments, which for the purpose of measurement, will be treated as equity reserves, not as fixed income securities. Convertibles are also permissible, however, they will be treated as equities as well. The portfolio is expected to remain fully invested.
- B. It is sample manager's decision as to whether or not to utilize the Short-Term Investment Fund offered by the Custodian Bank, or another cash equivalent vehicle, and in doing so, is responsible for assessing the credit worthiness and relative return attractiveness of any alternative to the custodian's STIF used.
- C. Sample manager may use exchange-traded funds such as S&P Depository Receipts ("Spyders") for the purpose of short-term equitization of unused funds, including cash in the account due to a contribution or pending withdrawal.
- D. The portfolio will be adequately diversified according to the internal policies established by sample manager regarding individual securities and industries to avoid the undue risk inherent in non-diversified holdings. In addition to the limitations set out in the Guidelines, the following limitations will apply:
 - 1. American Depository Receipts are permissible but are limited to a maximum of 15% of the portfolio based on market value.
- E. The portfolio performance will be measured on a total return basis, which includes both income and change in market value.
- F. Sample manager will be reviewed quarterly based on the following:
 - 1. Adherence to style risk assignment, including portfolio characteristics relative to those of the benchmark.
 - 2. The value-added over the Russell 1000 Value Index.
 - 3. The trend of value-added over the Russell 1000 Value Index.

3. The value-added over median similar style investment managers.

These guidelines are not to be construed as restrictive to sample manager's ability to follow the strategies it considers are the most appropriate given the Board's directives contained in the Investment Policy and these Instructions, but rather as an exercise of the Board's fiduciary responsibility. If at any time sample manager feels that the Policy or these Instructions are unrealistic, or may be a hindrance in pursuing their investment style, the Board and the Investment Consultant are to be notified immediately in writing.

EXHIBIT G

ANALYSIS OF LONG TERM CREDIT RATING SCALES USED BY MAJOR CREDIT RATING ORGANIZAIONS

<u>Moody's Long Term</u>	<u>S&P Long Term</u>	<u>Fitch Long Term</u>	<u>General Category</u>
Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	AAA AA+ AA AA-	Prime High Grade
A1 A2 A3	A+ A A-	A+ A A-	Upper Medium Grade
Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-	Lower Medium Grade
Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-	Non Investment Grade Speculative
B1 B2 B3	B+ B B-	B+ B B-	Highly Speculative
Caa1	CCC+		Substantial Risks
Caa2	CCC		Extremely Speculative
Caa3	CCC-	CCC	In default with little prospect for recovery
Ca / / /	CC D	DDD DD D	In Default

IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,
IN AND FOR LEON COUNTY, FLORIDA

BOARD OF TRUSTEES, JACKSONVILLE
POLICE AND FIRE PENSION FUND,
A body politic,

AND

JOHN KEANE, a retired firefighter and
Member of the FUND,

Plaintiffs,

vs.

CASE NO. 2009-CA-194

STATE OF FLORIDA,
DEPARTEMENT OF MANAGEMENT SERVICES,
DIVISION OF RETIREMENT,

Defendant.

FINAL DECLARATORY JUDGMENT

THIS MATTER having come before the Court on the parties' Motions for Summary Judgment, the Court having heard arguments of counsel being fully advised in the premises, is hereby ORDERED AND ADJUGED:

1. Chapter 2005-330, Laws of Florida, is a valid enactment of the Florida Legislature;
2. The Board of Trustees may implement the provisions of Chapter 2005-330, Law of Florida, including the applicable provisions of Section 215.47, Florida Statutes;
3. Each party will bear its own costs and attorneys' fees.

DONE AND ORDERED in Chambers, at Tallahassee, Leon County, Florida, this 14th day of June, 2010.

James O. Shelfer
Circuit Judge