City of
West Palm Beach
Police
Pension Fund

Statement Of Investment Policy

Objectives & Guidelines

Revised August 27, 2007

Statement of Investment Policy, Objectives, and Guidelines

I. SCOPE & PURPOSE

This statement of investment policy reflects the investment policy, objectives, and constraints of the funds under control of the Board of Trustees (Board) of the West Palm Beach Police Pension Fund (Fund) .

This statement of investment policy is set forth by the Board in order to:

A. Define and assign the responsibilities of all involved parties.

B. Establish a clear understanding for all involved parties of the investment goals and objectives for Fund assets.

C. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.

D. Establish a basis for evaluating investment results.

E. Establish the relevant investment horizon for which Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

II. INVESTMENT OBJECTIVES

The primary objective of Fund assets is to provide payment of benefit obligations to the participants in the Pension Fund. The Pension Fund will be funded and administered for the sole benefit of Fund participants. The Investment Policy formalizes the long-term strategy for meeting those benefit obligations.

The selected Investment Managers are charged with the task of making Investments for the interest and purpose of providing investment returns for the Fund. The assets must be invested with the care, skill and diligence that a prudent man acting in this capacity would undertake. All investments will be made within the guidelines of quality, marketability and diversification as outlined by the Guidelines and in compliance with all controlling state and/ statutes or other guidelines directly affecting the prudent investment of the assets.

The financial objectives of the Fund assets have been established in conjunction with a review of the returns and risks associated with alternative investment strategies, and the expected financial requirements of the Fund. The financial objectives include:

A. To achieve a favorable rate of return using absolute and relative measures against inflation and appropriate capital market indices over market cycles;

B. Preservation of capital;

C. Long term growth, maximizing long-term returns in order to minimize long-term contributions within reasonable and prudent levels of risk;

D. Achieving annualized total returns of 8.25% (defined as income plus realized and unrealized capital gains and losses) net of fees over rolling five to seven year time horizons, without exceeding a Beta of 1.2 times a weighted benchmark index. The benchmark index for the Fund will be comprised of each asset class index weighted by its target allocation. It is also expected that the portfolio will outperform this weighted benchmark index over a full market cycle and that the portfolio over this time period will have a positive alpha.. Beta is a measure of the volatility of a fund relative to an index. Alpha is a meaure of risk adjusted return which reveals the manager's success (positive alpha) or lack of success (negative alpha) in selecting securities and timing the market.

E. The portfolio mix of approximately sixty-five per cent (65%) equities, or equity substitutes, and thirty-five per cent (35%) fixed income, or fixed income substitutes, periodic rebalancing of the portfolio and the use of actuarial smoothing are designed to accomplish this goal.

III. PERFORMANCE MEASUREMENT

Both absolute and relative measures of investment performance should be monitored. The basic objective of the Fund is to attain a reasonable rate of return, which will keep the Fund actuarially sound.

The investment objectives stated above are the overall objectives of the entire portfolio and each Manager should be aware of these overall objectives. However, each Manager is responsible only for the portion of the portfolio they have been retained to manage. All investment returns shall be measured net of fees. Each investment manager will be reviewed on an ongoing basis and evaluated upon the following criteria:

A. *Ability to meet or exceed the median performance of a peer group of managers with similar styles of investing,*
B. *Ability to exceed the return of the appropriate benchmark index and, for equity managers, produce positive alpha (risk-adjusted return) within the volatility limits set in the following chart,*
C. *Adherence to a consistent investment process, consistently applied,*
D. *Retention of key investment personnel,*
E. *Adherence to the guidelines and objectives of this Investment Guidelines, and*
F. *Avoidance of regulatory actions against the firm, its principals or employees.*

Performance shall be evaluated according to the following framework:

<u>*Short Term (less than three years)*</u> – adherence to the stated philosophy and style of management at the time the investment manager was retained by the Fund; continuity of personnel and

practices at the firm; and, demonstrated ability to meet or exceed the median performance of other managers (peers) who adhere to the same or similar investment style.

Intermediate Term (rolling three to five year periods[*]*)* – *adherence to the stated philosophy and style of management at the time the investment manager was retained by the Fund; continuity of personnel and practices at the firm; ability to meet or exceed the median performance of other managers (peers) who adhere to the same or similar investment style*; and, the ability to outperform the respective target index.

Long Term (rolling five to seven year periods[*]*) - adherence to the stated philosophy and style of management at the time the investment manager was retained by the Fund; continuity of personnel and practices at the firm; performance within the top twenty-five percent of other managers (peers) who adhere to the same or similar investment style; and, ability to outperform the respective target index.*

IV. INVESTMENT AND FIDUCIARY STANDARDS

In accordance with Florida Statute 112.661 (4), the Board and its investment managers and investment monitor 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), set forth below:

Section 1104 – Fiduciary duties

(a) Prudent Man Standard of Care

(1) Subject to Sections 1103 (c) and (d), 1342 and 1344 of the title, a fiduciary shall discharge its duties with respect to a Fund 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 Fund;

(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 aim;

(C) By diversifying the investments of the Fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

[*] *Market cycles will vary in duration. Stated time frames apply to typical periods when market cycles occur every three to five years.*

V. INVESTMENT RISK

Understanding that a long-term positive correlation exists between volatility (risk) and expected returns in the securities markets, the following objectives concerning risk have been established:

A. Maintain risk characteristics for the Fund that are within the range outlined in this Policy.

B. Each Manager should maintain risk characteristics within the range outlined in this Policy.

C. Risk characteristics are defined by the volatility (standard deviation) of the portfolio returns and by systematic or market-related risk (beta).

VI. AUTHORIZED INVESTMENTS

The Board's investments are subject to the limitations set forth in the Special Act, Section 16 (21). These portfolio guidelines apply to separately managed accounts; but will be considered when selecting and evaluating mutual funds and commingled pools. Exposure to a single company is limited at the Total Portfolio level to a maximum of 5% in any one security (issueing company) at the time of purchase.

General

Investment managers have discretion to make portfolio changes to accomplish their stated goals subject to the foregoing, to any specific guideline issued by the Pension Board to the manager, and to the following general restrictions, except where expressly waived by the Pension Board:

A. Investment managers must obtain approval of the Pension Board prior to investing in a commingled investment vehicle.

B. For directly held securities, no more than 8% of the market value of the manager's portfolio may be held in the securities of any one corporation or entity (except U.S. government, guaranteed, or agency securities and approved commingled funds, to which no restrictions apply).

C. Maintain a fully invested portfolio (6% or less cash)

D. Not invest in non-marketable securities, except as authorized.

E. Unless authorized in specific guidelines, or by the expressed approval of the Pension Board, the manager may not sell securities short, buy securities on margin, buy private placements or restricted securities, borrow money or pledge assets, nor buy or sell financial futures, options, commodities or currencies. Prohibited Investments shall be defined as short sales, margin purchases, borrowing, commodities, letter stock, or any investment that is prohibited under Florida Statutes 185 or 215.47.

Equity Guidelines

Each equity investment manager shall:

A. Assure that no position of any one company exceeds 10% of the manager's total portfolio as measured at market without the written consent of the Pension Board;
B. Maintain a minimum of 20 positions in the portfolio to provide adequate diversification;
C. Maintain capitalizations consistent with the assigned investment mandate: Large; Mid; Smid; or Small Cap;
D. For domestic managers: The vast majority of equity securities owned in the portfolio must be listed on the New York, American, or NASDAQ Stock Exchanges;
E. For domestic managers: Sponsored ADRs listed on the New York, American or NASDAQ exchanges are NOT permitted;
F. Maintain adequate diversification among economic sectors by investing no more than 50% of the portfolio in any one economic sector, as defined by the relevant benchmark ***or*** 2.5X the relevant benchmark sector weight, whichever is lesser. Managers requesting waivers from this requirement must do so in writing to the consultant and client for each exception. The Fund has discretion to approve waivers;
G. With the exception of International Managers, not invest in non-dollar denominated securities.
H. In the case of International managers, maintain appropriate diversification with respect to currency and country exposure.
I. With respect to cash equivalents, all cash wherever and whenever possible should be invested in interest bearing securities. These securities should be free of loss or risk of price fluctuations and should be instantly salable, and can include obligations of the United States Government or obligations guaranteed as to principal and interest by the United States Government or an agency thereof..
J. See the cash equivalent section for additional approved investments.

Fixed Income Guidelines

Each fixed income investment manager shall:

A. Maintain a minimum quality of all fixed income securities purchased for the Fund in one of the four highest classifications of a major rating service (AAA, AA, A, BBB). Should the security drop below the lowest of those four classifications, it is the manager's responsibility to notify the board immediately to advise them of his/her recommendation.
B. Maintain a duration within +/-20% of the effective duration of the benchmark index. Duaration is a measure of a security's sensitivity to interest rate movements;
C. With respect to the corporate sector of the portfolio, invest no more than 25% of the portfolio in any one economic sector;
D. Assure that no position of any one issuer shall exceed 10% of the manager's total portfolio as measured at market value except for securities issued by the U. S.

government or its agencies, and that no more than 5% of the manager's total portfolio as measured at market may be invested in a single issue;

E. Invest no more than 1.5X relevant benchmark sector weight in either corporate or mortgage-backed securities.
F. Only Collateralized Mortgage Obligations (CMOs) backed by pools of mortgages guaranteed by the full faith and credit of the U.S. Government or an agency thereof will be used. Volatility will be held to a reasonable level by avoiding securities such as support bonds, interest-only STRIPs and other CMOs that are subject to wide swings in cash flows, price, and total return.
G. The Manager may invest no more than 20% of the portfolio in SEC-Registered, U.S. Dollar-denominated, U.S. Government-backed securities issued by foreign governments (i.e. Brady Bonds). However, the Manager may not invest foreign currency-denominated government bonds, any type of foreign corporate bonds (including both U.S. Dollar-denominated securities - Yankee Bonds - and foreign ordinary bonds), or any other foreign securities not expressly allowed above.
H. With respect to cash equivalents, all cash wherever and whenever possible should be invested in interest bearing securities. These securities should be free of loss or risk of price fluctuations and should be instantly salable, and can include obligations of the United States Government or obligations guaranteed as to principal and interest by the United States Government or an agency thereof..
I. See the cash equivalent section for additional approved investments.

Cash Equivalent Guidelines (for separately managed accounts only)

Each separately managed cash equivalent account manager shall:

A. Maintain a maximum weighted average maturity of less than one year.
B. Invest no more than 5% of the manager's portfolio in the commercial paper of any one issuer. All commercial paper must have a minimum rating of A1/P1 by Standard & Poor's and Moody's, respectively
C. No limit on investments in securities issued by the U.S. Government and its Agencies.
D. Invest no more than $100,000 in Bank Certificates of Deposit of any single issuer, unless the investments are fully collateralized by U.S. Treasury or agency securities. Any Certificates of Deposit purchased must have the highest credit quality rating from a nationally recognized rating.
E. Assure that no position of any one issuer shall exceed 8% of the manager's total portfolio as measured at market value except for securities issued by the U. S. government or its agencies.
F. Only fully collateralized Repurchase Agreements may be used in the account;
G. Custodian bank Sweep vehicles or Short Term Investment Fund may be used;
H. Banker's Acceptances may be used only from approved domestic banks.

Hedge Funds

Investments in hedge funds may be used to diversify the Pension Fund's total portfolio and to enhance total return. It is understood that hedge funds have limited liquidity (typically annual redemption) and are private partnerships with high variability of returns. The Pension Board shall consider certain criteria including, but not limited to, the following in its evaluation of a fund:

i. Tenure and track record of management as a team;
ii. Expertise in targeted areas of investment;
iii. Diversification relative to other investments;
iv. Use of leverage;
v. Liquidity of investments;
vi. General Partner investment, fees and potential conflicts of interest.

Under no circumstances with these funds comprise more than **25%** of the Fund's portfolio. The Fund will only invest in offshore fund of funds limited partnership shares (to avoid "Unrelated Business Taxable Income" (UBTI)) and its investment will not comprise more than **10%** of any individual partnership's assets.

Alternative Investments

With the exception of Hedge Fund of Funds, Alternative Investments, including but not limited to, venture capital, private equity, private placements, real estate, and timberland are expressly prohibited unless manager is hired specifically to handle only this type of investment. If so hired, the same "Manager Performance Objectives" stated above will bind any investment manager as well as all other relevant portions of this document.

Derivative Securities

For definition purposes, derivative securities include, but not limited to, Structured Notes[*], lower class tranches of collateralized mortgage obligations (CMOs)[*][**], principal only (PO) or interest only (IO) strips, inverse floating rate securities, futures contracts, options, short sales, commodities, and margin trading.
Except for Hedge Fund of Funds managers, under no circumstances shall investment managers utilize derivative securities without the express written consent of the Pension Board. This consent shall include the type of allowable derivatives and approved uses of the instrument. No consent will be given for any derivative security used for the purpose of leveraging the portfolio's investments. (If options and futures are specifically approved by the Pension Board, such positions must be offset in their entirety by corresponding cash or securities.)

**Investment in "conservative" structured notes that are principal guaranteed, unlevered, and of short-to-intermediate maturity is permitted.*
***Lower class as defined by Federal Financial Institutional Examination Council (FFIEC).*

The Pension Board shall consider certain criteria including, but not limited to, the following in its evaluation of a derivative strategy:

A. Manager's proven expertise in such category.
B. Value added by engaging in derivatives.
C. Liquidity of instruments.
D. Actively traded by major exchanges (or for over-the-counter positions, executed with major dealers).
E. Manager's internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.

Covered options may be written on stock held in the equity portion of the Pension Fund portfolio. No other option strategy may be pursued in trading of investment securities other than writing options on stocks held in the existing portfolio on a one-to-one basis.

VII. MATURITY AND LIQUIDITY REQUIREMENTS

The liquidity needs for Fund's assets are to provide for benefit payments and expenses associated with the Retirement Plan. To this end, the Pension Board will consider investment strategies that impose limited liquidity constraints on invested assets.

VIII. PORTFOLIO COMPOSITION – TOTAL FUND

The Board believes that it should be the function of the investment managers to allocate the Fund's assets among common stocks, fixed income instruments and cash reserves. Accordingly, it is the philosophy of the Board that the asset range of the Fund should be:

Fund Asset Allocation Guidelines (at market value):

Asset Classes	Minimum	Target Range	Maximum	Representative Index
		Target Asset Mix		
Large Cap Equity	19%	29%	39%	S & P 500 Index
Index	6%	*11%*	16%	or
Value	4%	*9%*	14%	Russell 1000
Growth	4%	*9%*	14%	
Mid Cap Equity	8%	16%	24%	Russell Mid Cap
Value	4%	*8%*	12%	or
Growth	4%	*8%*	12%	S&P 400 Index
Small Cap Equity	5%	10%	15%	Russell 2000 Index
Value	0%	*5%*	10%	
Growth	0%	*5%*	10%	
International (inc.Emg Markets)	0%	10%	15%	
Large Cap	0%	*5%*	10%	MSCI EAFE Index
Small Cap	0%	*5%*	10%	EAFE SC
Fixed Income and Fixed income Alternatives	25%	40%	55%	
Fixed Income	20%	30%	40%	LB Aggregate or
Domestic FI	20%	*30%*	40%	LB Gov/Credit
Alternatives	5%	10%	15%	
Low Volatility Hedge Fund of Funds	5%	*10%*	15%	8-10% Return

IX. REBALANCING

In maintaining these asset allocation targets, the Fund will strive to remain within the allocation ranges with the intent of rebalancing to targets annually, or whenever the portfolio falls outside the allocation target ranges. The asset allocation and the underlying assumptions will be reviewed annually.

X. ADJUSTMENT IN THE TARGET ALLOCATION

The approved asset allocation displayed previously indicates both an initial target allocation and a range for each broad investment category. From time to time, based on changing economic circumstances and the various relative investment opportunities perceived by the Board and their advisors, it may be desirable to make changes in the target allocation.

XI. EXPECTED ANNUAL RATE OF RETURN

The Board has determined, in consultation with its actuary, consultant and investment professionals, to use eight and one quarter percent (8.25%) as the actuarial assumption for return on this Pension Fund.

X. THIRD-PARTY CUSTODIAL AGREEMENTS

The Board has retained a third-party to custody the fund's assets, as documented by the agreement between the Board and Salem Trust Company. All securities shall be designated as an asset of the Board, and 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.

XI. MASTER REPURCHASE AGREEMENT

All approved institutions that transact master repurchase agreements on behalf of the Fund, including short term investments by the Fund's custodian, shall execute and adhere to the requirements of the Master Repurchase Agreement.

XII. BID REQUIREMENT

The Board requires that the Investment Manager(s), in accordance with their fiduciary relationship to the Board, competitively bid securities as appropriate and to select the most advantageous bid. The relationship between the Board and its investment managers is documented in the agreements between the Fund and its managers.

XIII. INTERNAL CONTROLS

The Fund shall be governed by a set of written internal controls and operational procedures, which shall be periodically reviewed by the Fund's Certified Public Accountant.

The Board has retained an independent Certified Public Accountant on an annual basis and requires reports from the Fund's Investment Consultant quarterly. This policy is designed to safeguard the Fund from losses that might arise from fraud, error or misrepresentations by third parties, or imprudent actions by the Board or employees of the Fund sponsor.

XIV. CONTINUING EDUCATION

The Board acknowledges the importance of continuing education. To that end, board members are encouraged to attend educational conferences in connection with their investment duties and responsibilities as Board.

XV. REPORTING

The Fund's Investment Consultant shall provide quarterly reports of the Fund's investment activities. These reports shall be public records and shall be submitted to the Fund sponsor as required by law. The relationship between the Board and its investment consultant is documented in the agreement between the Fund and it's Consultant.

XVI. VALUATION OF ILLIQUID INVESTMENTS

Without priot written approval of the Board, no illiquid investments shall be utilized by this Fund

XVII. COMMUNICATIONS

The Board requires continual awareness of the Fund's activity and position, both absolute and relative. To accomplish this:

A. On a reasonable schedule the manager(s) shall provide an analysis of the quality of the assets, a summary of common stock diversification, and other pertinent information. In addition, the manager(s) shall deliver each quarter a report detailing the Fund's performance, portfolio analysis and current assets of the Fund. The report shall contain certification that the Fund's investments comply with this statement of investment policy and guidelines. Each manager shall appraise the monitor and custodian of all transactions.

B. The Board will meet quarterly with the monitoring service's representative to review the Performance Report. On a reasonable schedule, meetings will be held with the investment manager(s) to discuss performance results, economic outlook, investment strategy, organizational changes, and any other pertinent matters affecting the Fund.

C. Immediate

The manager(s) shall immediately notify the Performance Monitors with the following information:

i. Any investment that does not meet this statement of investment policy and guidelines
ii. Market activity resulting in abnormal changes in the Fund, etc.
iii. Any change in senior investment personnel.
iv. Any significant change in basic investment style or approach.

v. Anytime manager(s) assets reach or exceed 25% in cash or cash equivalents.

vi. Any change in ownership of the firm of 10% or higher.

Responsibility of the Investment Consultant(s)

The Investment Consultant's role is that of a non-discretionary advisor to the Board. Investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

A. Assisting in the development and periodic review of investment policy.

B. Conducting investment manager searches when requested by the Pension Board.

C. Providing "due diligence", or research, on the Investment Manager(s).

D. Monitoring the performance of the Investment Manager(s) to provide the Pension Board with the ability to determine the progress toward the investment objectives.

E. Communicating matters of policy, manager research, and manager performance to the Pension Board.

F. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Pension Board.

XVIII. DISCRETIONARY AUTHORITY

The manager(s) have full discretion to invest in any particular investment, subject to this statement, the special act, and applicable State law.

XIX. PROXY VOTING

In general, proxies shall be voted in accordance with the Board proxy policy, which is:

“The Board of Trustees of the WEST PALM BEACH POLICE PENSION FUND recognizes that proxy voting powers are an asset of the Fund and must be exercised for the exclusive benefit of the participants in the Fund.” On a regular basis, no less frequently than annually, each manager shall report a record of his or her proxy vote.

XX. POLICIES AND GUIDELINES REVIEW

The Board may review this Statement of Investment Objectives and Guidelines at its discretion from time to time.

Acknowledgement

By acknowledging in writing the receipt of the Investment Policy Statement the Pension Board, the Consultants, the Custodian, and the Managers all agree to its terms and conditions. Any modifications to this policy must be approved by the Pension Board and shall be reviewed with the Consultant and Investment Managers prior to implementation.

The signatures below affirm that the Investment Policy Statement has been read, understood and accepted.

_______________________________________ ___________________

For the Plan (Name and Title) Date

_______________________________________ ___________________

For the Custodian (Signature) Date

_______________________________________ ___________________

For the Investment Consultant (Name and Title) Date

_______________________________________ ___________________

For the Investment Manager (Signature) Date