

**CITY OF PENSACOLA GENERAL PENSION AND  
RETIREMENT FUND**

**INVESTMENT POLICY STATEMENT**

(Adopted: February 11, 2004)

Revised: June 17, 2009

Revised: October 12, 2011

**I. PURPOSE OF INVESTMENT POLICY STATEMENT**

The Board of Trustees of the Pensacola General Pension and Retirement Fund (the "Fund") maintain that an important determinate in achieving successful investment results over time is the clear expression and periodic review of the Fund's investment objectives. To this end, the Trustees have adopted this statement of investment policy.

In fulfilling their fiduciary responsibility, the Trustees recognize that the Fund is an essential vehicle for providing income benefits to retired participants or their beneficiaries. The Trustees also recognize that the obligations of the Fund are long-term and that the investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return (defined as interest and dividend income plus realized and unrealized capital gains or losses) while maintaining a prudent regard for legal considerations, fiduciary responsibility, safety of capital and minimum volatility of returns.

Reasonable consistency of returns and protection of assets against the inroads of inflation are paramount. However, the volatility of interest rates and securities markets makes it necessary to judge results within the context of several years rather than over short periods of one or two years or less.

To achieve these objectives, the Trustees seek to create a well diversified and balanced portfolio of equity, convertibles, fixed income, real estate (diversified commingled funds and/or REITs) and money market securities. The Board has determined that one or more outside investment managers shall be retained to assure that all investments are managed in both a prudent and professional manner and in compliance with the stated investment guidelines. When deemed appropriate, the Trustees may also invest Fund assets in mutual funds.

**II. INVESTMENT PERFORMANCE OBJECTIVES**

The below listed performance measures will be used as objective criteria for evaluating the effectiveness of the Fund's investment strategy and of the Fund's money manager(s).

#### Total Fund Performance:

The performance of the total Fund will be measured on a rolling five year period. This period is considered sufficient to accommodate a full investment market cycle.

On a relative basis, it is expected that the total Fund's return will rank in the TOP 50% when compared to other professionally managed public pension funds over similar time periods.

It is further expected that the total Fund's return will exceed that of a Target Index over such period. The Target Index for the Pensacola General Pension and Retirement Fund is defined as a 40% investment in the Russell 1000 Stock Index, a 10% investment in the Russell 2500 Stock Index, a 15% investment in the MSCI EAFE (Europe, Australia and Far East) Stock Index, a 10% investment in the Merrill Lynch All U.S. Convertible Index and a 25% investment in the Barclays Capital U.S. Aggregate Bond Index.

On an absolute basis, it is expected that the total Fund's return will equal or exceed the actuarial earnings assumption (8%) over such period.

#### Common Stock Portfolio Performance:

It is expected that the rate of return earned in the total domestic equity portfolio will equal or exceed the return of the Russell 3000 Stock Index. The rate of return of the Fund's foreign equity portfolio is expected to equal or exceed the return of the MSCI EAFE Stock Index. It shall be a further objective that the total equity portfolio return (domestic and foreign) rank in the top 50% when compared to the equity portfolios of other public pension funds.

#### Bond Portfolio Performance:

It is expected that the rate of return earned in the fixed income portfolio will equal or exceed the return of the Barclays Capital U.S. Aggregate Bond Index and rank in the top 50% when compared to the fixed income portfolios of other public pension funds.

#### Convertible Performance:

It is expected that the rate of return earned in the convertible portfolio will equal or exceed the return of the Merrill Lynch All U.S. Convertibles Index and rank in the top 50% when compared to an appropriate universe of convertible managers.

#### Real Estate Portfolio Performance:

The private real estate portion of the portfolio is expected to meet or exceed the return of the NCREIF Real Estate Index. Actively managed public real estate (REIT) is expected to meet or exceed the Dow Jones Wilshire REIT Index and rank in the top 50% of an appropriate real estate fund universe.

### III. INVESTMENT GUIDELINES

The Board of Trustees of the Pensacola General Pension and Retirement Fund has established a target asset allocation for the Fund based on the market value of the Fund's total assets:

	Target	Target Index
Domestic Equity-Large Cap	40%	Russell 1000
Domestic Equity-Small/Mid Cap	10%	Russell 2500
Foreign Equity	15%	MSCI EAFE
Convertible Securities	10%	ML All U.S. Convertibles
Fixed Income	25%	Barclays U.S. Aggregate Bond

Although Fund contributions or withdrawals may be used to maintain the appropriate balance between investment manager portfolios, it may also be necessary from time to time to transfer securities or cash from one investment manager to another. If at the end of any calendar quarter, the total market value of the equity securities (including convertibles) exceeds 80% or is less than 60% of the Fund's total assets, assets may be shifted to move towards the above target mix.

The Trustees recognize that investments in mutual funds will be subject only to the guidelines and limitations contained in the mutual fund prospectus. The guidelines contained in this document apply to all separately managed portfolios. Specific investment manager assignments and any additional guidelines for separately managed portfolios will be outlined in addenda to this overall Statement of Investment Policy.

The separate account assets of the Fund may be invested and reinvested in a diversified portfolio of easily negotiable equity, convertible, fixed income, real estate (diversified commingled funds and/or REITs) and cash equivalent securities, provided all securities meet the following criteria:

#### EQUITY SECURITIES:

- 1) No more than 5% (at market) of the Fund's total equity portfolio may be invested in the shares of a single corporate issuer. This limit is defined as the market value of the security divided by the market value of the total equities in the Fund.
- 2) Investments in equity securities that have been publicly traded for less than one year are limited to no more than 10% (at market) of the Fund's total equity portfolio. This limit is defined as the total market value of equity securities that have been publicly traded for less than one year divided by the market value of the total equities in the Fund.

- 3) Investments in corporate obligations and securities of any kind of a foreign corporation or a foreign commercial entity having its principal office located in any other country other than the United States of America 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, are limited to 25% of the total Fund value (at market).
- 4) All domestic equity securities shall be limited to fully and easily negotiable securities that are actually traded on a major U.S. stock exchange, NASDAQ or U.S. over-the-counter market.
- 5) The total allocation to equities (including convertibles) shall not exceed 80% (at market) of the total Fund.

#### CONVERTIBLE SECURITIES:

- 1) All convertible securities shall be classified as equities and shall be limited to 25% of the Fund's total market value.
- 2) No more than 10% at market value of an investment manager's convertible portfolio may be invested in the shares of a single corporate issuer.
- 3) Investments in foreign convertibles shall not exceed 25% of the market value of the investment manager's portfolio. Foreign securities are defined as those companies that are not organized under the laws of the United States or the District of Columbia. All securities must be traded in U.S. dollars and cleared through DTC or Euroclear
- 4) This hybrid asset class will be deemed as equity and shall not be held to the rating standards of fixed income investments.
- 5) 144A securities may be used only when the Board authorizes their use.
- 6) Synthetic convertibles shall not exceed 30% (at market) of the manager's portfolio.

#### FIXED INCOME SECURITIES:

- 1) Investments in all corporate fixed income securities shall be limited to those securities rated "BAA" or higher by Moody's or "BBB" or higher by Standard & Poor's rating services. Fixed income securities which are downgraded below the minimum rating by both entities shall be sold at the earliest beneficial opportunity.
- 2) Investments in corporate fixed income securities that are rated below "A" by Standard & Poor's and Moody's shall not exceed 25% of the Fund's total fixed income portfolio.
- 3) Investments in the fixed income securities issued by a single corporation shall not exceed 5% (at market) of the Fund's total fixed income portfolio.

- 4) Investments in Collateralized Mortgage Obligations (CMOs) shall be limited to 25% of the market value of the investment manager's fixed income portfolio and shall be restricted to those issues backed by securities issued by the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Federal National Mortgage Association (FNMA).
- 5) Investments in corporate obligations and securities of any kind of a foreign corporation or a foreign commercial entity having its principal office located in any other country other than the United States of America 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, are limited to 25% of the total fund value (at market).
- 6) There is no limit imposed on investments in fixed income securities issued directly by the United States Government or any agency or instrumentality thereof.
- 7) Investment grade obligations of state and local governments and public authorities are also permitted.

#### REAL ESTATE:

- 1) Investments in real estate shall not exceed 15% (at market) of the Fund's total market value.
- 2) All real estate investments shall be made through commingled real estate funds up to the maximum of 15% of assets (at market). Direct ownership and operation of real estate properties are prohibited.
- 3) Experienced and professional real property investment managers shall manage all real estate investments.
- 4) Real estate securities (REITs) are also permitted.

#### CASH EQUIVALENT SECURITIES:

- 1) The investment managers may invest only in the following short term investment vehicles:
  - a) The money market or STIF provided by the Fund's custodian.
  - b) Direct obligations of the United States Government or an agency thereof with a maturity of one year or less.

- c) Commercial Paper with 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.
- d) Investments in interest only or principal only CMOs, interest rate swaps, precious metals, limited partnerships of any kind, venture capital, futures contracts or options contracts are prohibited without the written consent of the Board of Trustees. Trading on margin and short selling are also prohibited.

#### **IV. COMMUNICATIONS**

The investment managers shall provide a monthly report summarizing all transactions, all receipts and disbursements and a list and valuation of all assets.

The investment managers shall also provide a quarterly report detailing the manager's current investment strategy, fund performance and any other salient information regarding Fund investments. The investment managers may make a presentation to the Trustees semi-annually, or with greater frequency as requested.

The Trustees will retain a performance measurement consultant to assist in calculating and reviewing Fund results on a quarterly basis. The consultant shall also be responsible for assisting the Trustees in selecting investment managers, evaluating investment manager results, achievement of objectives, compliance with guidelines, changes in manager investment style and style drift.

#### **V. INVESTMENT MANAGER SELECTION**

When selecting investment manager(s) to invest the assets of the Fund, it is the objective of the Trustees to identify those investment manager candidates most appropriate to meet the specific Fund objectives outlined in this statement. To accomplish this, a comprehensive screening and evaluation process will be used. In this process, consideration will be given to firm size, structure and stability, management style, past performance and risk exposure, experience of the firm's personnel and any other criteria deemed appropriate by the Trustees. The Trustees may retain a performance measurement consultant to perform the comprehensive screening and evaluation process.

#### **VI. SECTION 112.661, FLORIDA STATUTES**

The Trustees have adopted the following additional provisions to comply with Section 112.661, Florida Statutes:

**INVESTMENT AND FIDUCIARY STANDARDS:** In performing its investment duties, the Trustees and the investment managers shall comply with the fiduciary standards set forth in ERISA (Employee Retirement Income Security Act of 1974, as amended (29 USC 1104)) and Chapter 112, Florida Statutes. In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in Chapter 112, Florida Statutes shall prevail.

**AUTHORIZED INVESTMENTS:** Unless otherwise authorized by law or ordinance, investments of the Fund shall be subject to the limitations and conditions set forth in Section 215.47, Florida Statutes, the provisions applicable to the State Board of Administration for investment of assets of the Florida Retirement System.

**EXPECTED ANNUAL RATE OF RETURN:** With consideration to rates of return from different asset classes, the Trustees have crafted their investment program in order to deliver an expected rate of return similar to that of the actuarial assumed rate. The Trustees shall determine for each actuarial valuation, the total expected annual rate of return for the current year, for each of the next several years and for the long term thereafter. The total expected annual rate of return is anticipated to be similar to the actuarial assumed rate of return. This determination is to be filed with the Department of Management Services and with the plan sponsor and consulting actuary.

**THIRD-PARTY CUSTODIAL AGREEMENTS:** All assets shall be held by a third party custodian selected by the Trustees. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities are to be made on a "delivery vs. payment" basis to insure that the custodian will have the security or money in hand at the conclusion of the transaction.

**MASTER REPURCHASE AGREEMENT:** Repurchase Agreements are prohibited investments.

**BID REQUIREMENT:** To the extent possible, it is the intention of the Trustees to 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 is to be selected.

**INTERNAL CONTROLS:** The Trustees recognize the internal controls and operational procedures outlined in the Trustees' operating rules and procedures in the plan document and in the custodial agreement. These controls are to be reviewed by the Trustees' independent certified public accountant as part of the financial audit periodically required. The internal controls are designed to prevent losses of funds, which might arise from fraud, error, and misrepresentation by third parties or imprudent actions by the Trustees or employees of the plan sponsor.

CONTINUING EDUCATION: The Trustees rely on their consultants and professionals to provide continuing education on pension and investment issues. The Trustees also recognize state and regional conferences as a source of continuing education. The Trustees are encouraged to attend conferences, schools, and other functions periodically in order to fulfill this requirement.

REPORTING: The Custodian's valuation report is to be filed annually with the plan sponsor. This report is available to the public.

FILING OF INVESTMENT POLICY: The investment policy is to be promptly filed with the Department of Management Services, plan sponsor and consulting actuary. The effective date of the investment policy and any amendment thereto shall be the 31st calendar day following the filing date with the plan sponsor.

VALUATION OF ILLIQUID INVESTMENTS: The Board defines an illiquid investment as one for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism. Should an investment become illiquid or in the event that the fund acquires an illiquid investment, the Board shall develop the methodology for valuation as set forth in the criteria in Section 215.47(6), Florida Statutes (the SBA/FRS methodology for valuation).

SUDAN/IRAN DIVESTITURE: In accordance with the Protecting Florida's Investment Act (Fla. Stat. 215.473), each investment manager is prohibited from directly investing in any company identified each quarter by the State Board of Administration on its website as a scrutinized company. Each investment manager shall review its investments each quarter to determine whether it is required to sell, redeem, divest or withdraw any publicly traded security of a company identified by the SBA as a scrutinized company.

## VII. REVIEW AND AMENDMENTS

It is the Trustees' intention to review this document periodically and to amend it to reflect any changes in philosophy, objectives or guidelines. However, if at any time the investment managers or consultant believe that the specific objectives defined herein cannot be met or that these guidelines constrict performance, the Trustees should be so notified in writing. By initial and continuing acceptance of this Investment Policy Statement, the investment managers concur with the provisions of this document.

  
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**Chairman, Pensacola General Pension and Retirement Fund**

10-12-11  
Date

**CITY OF PENSACOLA  
GENERAL PENSION AND RETIREMENT FUND**

**ADDENDUM TO  
STATEMENT OF INVESTMENT POLICY**

**FOR**

**Advent Capital Management, LLC**

**Adopted: October 12, 2011**

This Addendum is a part of the Pensacola General Pension and Retirement Fund Statement of Investment Policy and is intended only to complement the objectives and guidelines outlined therein.

Advent Capital Management, LLC (Advent) has been retained by the Pensacola General Pension and Retirement Fund (the Fund) to invest a portion of the Fund's assets in a well diversified portfolio of convertible and cash equivalent securities. Advent was selected for this assignment based on their qualifications and experience as a convertible manager.

**GUIDELINES**

Advent shall invest all Fund assets under their management in a manner consistent with the guidelines outlined in the overall Statement of Investment Policy. The specific guidelines for the Advent portfolio are as follows:

1. The portfolio is to be invested in convertible fixed income, convertible preferred and cash securities.
2. 144A Securities may only be acquired when the Board authorizes their use.
3. Cash shall not exceed 25% of the total Advent portfolio.
4. No more than 10% (at market) of the Advent portfolio may be invested in any one issuer.
5. Investments in foreign convertibles are limited to 25% (at market) of the investment manager's portfolio. The definition of a foreign security for purposes of this policy is any corporation not organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia. All securities must be traded in U.S. dollars and cleared through DTC or Euroclear.
6. Synthetic convertibles shall not exceed 30% (at market) of the Advent portfolio.

**INVESTMENT OBJECTIVES**

Advent has been retained as a convertible portfolio manager and will be evaluated on that basis. The assets of the Fund managed by Advent shall be invested with the following primary objectives:

- 1) To achieve a total rate of return over the longer term (3 to 5 years) in excess of the Merrill Lynch All U.S. Convertible Index.
- 2) To achieve a rate of return over the longer term (3 to 5 years) which ranks above average when compared to a representative universe of other, similarly managed portfolios.
- 3) The volatility of the Fund's total returns is expected to be similar to that of the Merrill Lynch All U.S. Convertible Index.

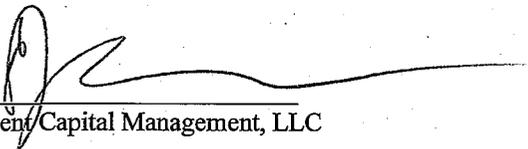
Although the Board of Trustees recognizes the necessity of a long term horizon when evaluating investment manager results, shorter term results will also be monitored to determine any developing trends.

**POLICY REVIEW**

It is the intention of the Board of Trustees to review the Statement of Investment Policy and this Addendum periodically and to amend them to reflect any changes in philosophy or objectives. However, if at any time the investment manager believes that the specific objectives defined herein cannot be met or that the guidelines unnecessarily constrict performance, the Board of Trustees should be so notified in writing.

  
Chairman, Board of Trustees  
Pensacola General Pension and Retirement Fund

10-12-11  
Date

  
Advent Capital Management, LLC

10/6/11  
Date

**CITY OF PENSACOLA  
GENERAL PENSION AND RETIREMENT FUND**

**ADDENDUM TO  
STATEMENT OF INVESTMENT POLICY**

**FOR**

**SSI Investment Management**

**Adopted: October 12, 2011**

This Addendum is a part of the Pensacola General Pension and Retirement Fund Statement of Investment Policy and is intended only to complement the objectives and guidelines outlined therein.

SSI Investment Management (SSI) has been retained by the Pensacola General Pension and Retirement Fund (the Fund) to invest a portion of the Fund's assets in a well diversified portfolio of convertible and cash equivalent securities. SSI was selected for this assignment based on their qualifications and experience as a convertible manager.

**GUIDELINES**

SSI shall invest all Fund assets under their management in a manner consistent with the guidelines outlined in the overall Statement of Investment Policy. The specific guidelines for the SSI portfolio are as follows:

1. The portfolio is to be invested in convertible fixed income, convertible preferred and cash securities.
2. 144A Securities may only be acquired when the Board authorizes their use.
3. Cash shall not exceed 25% of the total SSI portfolio.
4. No more than 10% (at market) of the SSI portfolio may be invested in any one issuer.
5. Investments in foreign convertibles are limited to 25% (at market) of the investment manager's portfolio. The definition of a foreign security for purposes of this policy is any corporation not organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia. All securities must be traded in U.S. dollars and cleared through DTC or Euroclear.
6. Synthetic convertibles shall not exceed 30% (at market) of the SSI portfolio.

INVESTMENT OBJECTIVES

SSI has been retained as a convertible portfolio manager and will be evaluated on that basis. The assets of the Fund managed by SSI shall be invested with the following primary objectives:

- 1) To achieve a total rate of return over the longer term (3 to 5 years) in excess of the Merrill Lynch All U.S. Convertible Index.
- 2) To achieve a rate of return over the longer term (3 to 5 years) which ranks above average when compared to a representative universe of other, similarly managed portfolios.
- 3) The volatility of the Fund's total returns is expected to be similar to that of the Merrill Lynch All U.S. Convertible Index.

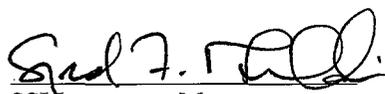
Although the Board of Trustees recognizes the necessity of a long term horizon when evaluating investment manager results, shorter term results will also be monitored to determine any developing trends.

POLICY REVIEW

It is the intention of the Board of Trustees to review the Statement of Investment Policy and this Addendum periodically and to amend them to reflect any changes in philosophy or objectives. However, if at any time the investment manager believes that the specific objectives defined herein cannot be met or that the guidelines unnecessarily constrict performance, the Board of Trustees should be so notified in writing.

  
Chairman, Board of Trustees  
General Pension and Retirement Fund

10-12-11  
Date

  
SSI Investment Management

10/6/11  
Date