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# **INVESTMENT POLICY STATEMENT**

**For**

## **BISMARCK FIREFIGHTER'S RELIEF ASSOCIATION PENSION PLAN**

Approved by the Trustees  
February 19, 1998

Revised  
February 26, 2008

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# EXECUTIVE SUMMARY

**Type of Plan:** .....Defined Benefit

**Current Assets:** .....\$21,916,399

**Planning Time Horizon:** .....Greater than 5 years

**Expected Return:** .....9.0% (5.0% over CPI)

**Risk Tolerance:**.....Medium, Losses not to exceed 7.2%/year,  
Based on a statistical confidence level of 90%

<b>Asset Allocation</b>	<b>Lower Limit</b>	<b><u>Strategic Allocation</u></b>	<b>Upper Limit</b>
Domestic Equity:			
Large Cap Value	14%	19%	24%
Large Cap Growth	14%	19%	24%
Mid/Small Cap	4%	9%	14%
International Equities:	15%	20%	25%
Core Fixed Income:	21%	26%	31%
Commodity Futures	0%	5%	10%
Money Market		2%	

**Evaluation Benchmark:** Total return to exceed performance of median Plan in Callan's Balanced Fund database and a policy index based upon the strategic asset allocation of the Plan to various broad asset classes. Specifically, the policy index will be a weighted index comprised of:

- 38% S&P 500
- 5% S&P 400
- 4% S&P 600
- 20% MSCI EAFE Index
- 26% LB Aggregate Bnd.

- 5% Dow Jones-AIG commodity Index
- 2% Citi: T-Bill 3 month

The purpose of this Investment Policy Statement (IPS) is to assist the Trustees in effectively supervising, monitoring and evaluating the investment of the Relief Association's Retirement Plan (Plan) assets. The Plan's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Trustee's attitudes, expectations, objectives and guidelines for the investment of all Plan assets.
- Setting forth an investment structure for managing all Plan assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in that portfolio, so that all Plan assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Trustees, the investment consultant (Consultant) and the money managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.
- Complying with all fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact Plan assets.

This IPS has been formulated, based upon consideration by the Trustees of the financial implications of a wide range of policies, and describes the prudent investment process that the Trustees deems appropriate.

# STATEMENT OF OBJECTIVES

The plan is maintained by contributions from participants of 7 percent of a first class Firefighter's salary on a bi-monthly basis. State statutes require the City to levy mills that will provide an amount equal to the employees contributions. In addition, 1.25% of the premiums received by insurance companies for fire and multiple peril insurance on property within the City is refunded by the State and in accordance with state statute, 0.685% is contributed to the plan when collected. Employees who retire at or after age 50, with at least 10 years of credited service are eligible to a retirement benefit, payable monthly for life, equal to 20% to 60% of a first class Firefighter's salary. The plan also provides for death and disability benefits.

Current assets in the plan are approximately \$16 million. As of June 1<sup>st</sup>, 2000 there were 24 retired participants and 7 beneficiaries in pay status, with 61 active participants, 27 of which were vested. The relief association has 7 elected officers and trustees.

## **Key Information:**

**Name of Plan:** Bismarck Firefighter's Relief Association Pension Plan

**Plan Sponsor:** Bismarck Firefighter's Relief Association  
**Plan IRS Tax ID:** 45-6010621

**Plan Board of Directors:** Peter D. Kvien, President  
Michael A. Keller, Vice President  
Franklin J. Smith Jr., Secretary Treasurer  
James Henes, Trustee  
Joshua Peshek, Trustee  
James Deforest, Trustee  
Terry Winings, Trustee

**Custodian:** Bank of New York and Schwab Institutional

**Investment Manager(s):** Large Cap Value- Great Lakes Advisors  
Large Cap Growth-RCM  
Small Cap-Allianz CCM Emg. Co.  
Mid Cap-Hotchkis & Wiley  
International Equity-Fidelity Dvds Intl. Value  
Core Fixed Income- Richmond Capital  
PIMCO Total Return

**Commodity Futures-PIMCO Commodity Real Return  
Strategy Fund**

<b>Investment Consultant:</b>	Innovest Portfolio Solutions LLC.
<b>Legal Counsel:</b>	
<b>Accountant:</b>	Eide Bailey LLPP
<b>Actuary:</b>	Milliman, John Garrett
<b>Administrator:</b>	Charles Schwab

The objectives of the Plan have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

- (1) To maintain the purchasing power of the current assets and all future contributions by producing positive real rates of return on Plan assets.
- (2) To develop a fully funded status with regard to the Accumulated Benefit Obligation and 98% of the Projected Benefit Obligation.
- (3) To have the ability to pay all benefit and expense obligations when due.
- (4) To develop a “funding cushion” for unexpected developments and for possible future increases in benefit structure and expense levels.
- (5) To maintain flexibility in determining the future level of contributions.
- (6) To maximize return within reasonable and prudent levels of risk in order to minimize contributions.
- (7) To control costs of administering the plan and managing the investments.

Investment results are the critical element in achieving the investment objectives, while reliance on contributions is a secondary element.

# **GUIDELINES AND INVESTMENT POLICY** *Investment Policy Statement*

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## **Time Horizon**

The investment guidelines are based upon an investment horizon of greater than five years, so that interim fluctuations should be viewed with appropriate perspective. Similarly, the Plan's strategic asset allocation is based on this long-term perspective.

Short-term liquidity requirements are anticipated to be non-existent, or at least should be covered by the annual contribution.

## **Risk Tolerances**

The Trustees recognizes the difficulty of achieving the Plan's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Trustees also recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered. These factors were:

- The Cities strong economic condition enables the plan to adopt a long-term investment perspective.
- Demographic characteristics of participants suggest a median risk tolerance due to the younger-than-average age of the work force.
- Actuarial data related to future projected benefit payments, along with future projected expenses of the Plan, are significantly less than conservative forecasted investment income projections through 2000. Therefore, liquidity requirements are immaterial over the next ten years, which implies that a median risk profile is acceptable.

In summary, the Bismarck Firefighter's Relief Association Pension Plan prospects for the future, current financial condition, and several other factors, suggest collectively that the Plan can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives.

## **Performance Expectations**

The desired investment objective is a long-term rate of return on assets that is at least 9%, which is 5.3% greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for the Plan has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the IPS.

The Trustees realize that market performance varies and that a 9% rate of return may not be meaningful during some periods. Accordingly, relative performance benchmarks for the managers are set forth in the "Control Procedures" section.

Over a complete market cycle, the Plan's overall annualized total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs, should perform above the median of Callan's Balanced fund universe and above a customized index comprised of market indices weighted by the strategic asset allocation of the Plan<sup>1</sup>.

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<sup>1</sup> The Strategic Index is comprised of 33% S&P 500, 13% S&P 600, 28% MSCI EAFE Index, 2% T-Bills, and 24% Lehman Aggregate Index.

**Asset Allocation Constraints**

The Trustees believes that the Plan's risk and liquidity posture are, in large part, a function of asset class mix. The Trustees has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. The following asset classes were selected:

- Domestic Large Capitalization Equities
- Domestic Small Capitalization Equities
- International Equities
- Domestic Fixed Income
- Cash Equivalents

Based on the Plan's time horizon, risk tolerances, performance expectations and asset class preferences, an efficient or optimal portfolio was identified (Enclosure 1). The strategic asset allocation of the Plan is as follows:

<b>Asset Allocation</b>	<b><u>Lower Limit</u></b>	<b><u>Strategic Allocation</u></b>	<b><u>Upper Limit</u></b>
Domestic Large Capitalization Equities:			
Value	14%	19%	24%
Growth	14%	19%	24%
Domestic Small Capitalization Equities:	4%	9%	14%
International Equities:	15%	20%	25%
Core Fixed Income:	21%	26%	31%
Commodity Futures	0%	5%	10%
Money Market		2%	

### **Rebalancing of Strategic Allocation**

The percentage allocation to each asset class may vary as much as plus or minus 5% depending upon market conditions.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Plan. If there are no cash flows, the allocation of the Plan will be reviewed quarterly.

If the Trustees judge cash flows to be insufficient to bring the Plan within the strategic allocation ranges, the Trustees shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges (**Strategic Allocation**).

Every money manager selected to manage Plan assets must adhere to the following guidelines.

The following securities and transactions are not authorized unless receiving prior Trustees approval:

- (1) Letter stock and other unregistered securities; commodities or other commodity contracts; and short sales or margin transactions.
- (2) Securities lending; pledging or hypothecating securities;
- (3) Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor; and investments for the purpose of exercising control of management are all restricted.

## *Domestic Equities:*

- Equity holdings in any one company should not exceed more than 10% of the market value of the Plan's equity portfolio.
- Not more than 25% of the market value of the portfolio should be invested in any one economic sector.
- The manager shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the managers will be evaluated against their peers on the performance of the total funds under their direct management.
- Holdings of individual securities shall be large enough (round lots) for easy liquidation.

**Domestic Fixed Income:**

- All fixed-income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. government agencies, which are unrated securities, are qualified for inclusion in the portfolio.
- No more than 20% of the market value of the fixed income portfolio shall be rated less than single "A" quality, unless the manager has specific written authorization.
- The exposure of the portfolio to any one issuer, other than securities of the U.S. government or agencies, shall not exceed 10% of the market value of the fixed income portfolio.
- Holdings of individual issues shall be large enough for easy liquidation.

**International Equities:**

- Equity holdings in any one company shall not exceed more than 10% of the International Equity portfolio.
- No more than 25% of the portfolio shall be invested in one industry category.
- Allocations to any specific country shall not be excessive relative to a broadly diversified international equity manager peer group. It is expected that the non-U.S. equity portfolio will have no more than 40% in any one country.
- The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

**Cash/Cash Equivalents:**

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or higher. Eurodollar Certificates of Deposits, time deposits, and repurchase agreements are also acceptable investment vehicles.
- Any idle cash not invested by the investment managers shall be invested daily through an automatic interest bearing sweep vehicle managed by the custodian.

# SELECTION OF MONEY MANAGERS

The Trustees, with the assistance of the Consultant, will select appropriate money managers to manage the Plan assets. Managers must meet the following minimum criteria:

- (1) Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- (2) Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- (3) Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- (4) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request For Proposal (RFP) completed by the manager.
- (5) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- (6) Selected firms shall have no outstanding legal judgments or past judgments which may reflect negatively upon the firm.

### **Duties and Responsibilities of the Money Managers**

The duties and responsibilities of each money manager retained by the Trustees include the following:

- (1) Managing the Plan assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Trustees.
- (2) Exercising investment discretion [including holding cash equivalents as an alternative] within the IPS objectives and guidelines set forth herein.
- (3) Promptly informing the Trustees in writing regarding all significant and/or material matters and changes pertaining to the investment of Plan assets, including, but not limited to:
  - a. Investment strategy
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership
  - e. Organizational structure
  - f. Financial condition
  - g. Professional staff
  - h. Recommendations for guideline changes
  - i. All legal material, SEC and other regulatory agency proceedings affecting the firm.
- (4) Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Plan set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.

- (5) Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with ERISA and all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.
  
- (6) Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

### **Actuarial Policy**

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to an annual review by the Trustees. This review will focus on analysis of major differences between the Plan's assumptions and actual experience.

### **Brokerage Policy**

All transactions effected for the Plan will be "subject to the best price and execution." If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Trustees.

### **Performance Objectives**

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives.

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

**Monitoring of Money Managers**

Quarterly performance will be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on *peer*-performance comparisons with managers employing similar styles.

On a timely basis, but not less than four times a year, the Trustees will meet to focus on:

- Manager's adherence to the IPS guidelines;
- Material changes in the manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's results to appropriate indices and peer groups, specifically:

<i>Asset Category</i>	<i>Index</i>	<i>Peer Group Universe</i>
<b>Domestic Large Capitalization Equity</b>		
Value	S & P 500	Value Equity Style
Growth	S & P 400	Growth Equity Style
<b>Domestic Small Capitalization Equities</b>	S & P 600	Small Capitalization Equity
<b>International Equity</b>		
Core	MSCI EAFE	International Equity
<b>Core Domestic Fixed Income</b>	Lehman Govt/Corp	Fixed Income Database

The risk associated with each manager's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

In addition to the information covered during the **quarterly** reviews, the Trustees will meet at least annually to focus on:

- The manager's performance relative to managers of like investment style or strategy. Each manager is expected to perform in the upper half of the manager's respective style universe.
- The Plan's investment performance results compared to the manager's overall composite performance figures to determine unaccounted for dispersion between the manager's reported results and the Plan's actual results.

The Trustees are aware that the ongoing review and analysis of money managers is just as important as the due diligence implemented during the manager selection process. Accordingly, a thorough Review and Analysis of a Money Manager will be conducted, should:

- A Manager perform in the bottom quartile (75th percentile) of their peer group over a quarterly, or annual period.
- A Manager fall in the southeast quadrant of the risk/return scatterplot for 3- and/or 5-year time periods.
- A Manager have a 5-year risk adjusted return fall below that of the median manager within the appropriate peer group.

Furthermore, performance which may require the replacement of a Manager include:

- Managers that consistently perform below the median (50th percentile) of their peer group over rolling three year periods.
- Managers which perform below the median (50th percentile) of their peer group over a five year period.
- Managers with negative alphas for 3- and/or 5-year time periods.

Major organizational changes also warrant immediate review of the manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the Trustee's investment managers will be monitored on an ongoing basis and it is at the Trustee's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

**(Enclosure 1)**

**ASSET ALLOCATION SUPPORT STUDY**

**For**

**BISMARCK FIREFIGHTER'S RELIEF ASSOCIATION  
PENSION PLAN**

## **PURPOSE**

This Asset Allocation Support Study (Study) is a sub-set of the Bismarck Firefighter's Relief Association Pension Plan Investment Policy Statement (IPS). The purpose of this report is to set forth the various design features that were considered by the Trustees. This report is intended to communicate the prudent process followed in constituting the portfolio:

- An Investment Policy should be established and should be in writing.
- Plan assets should be diversified.
- Investment decisions should be made with the skill and care of a prudent expert.
- Investment expenses should be controlled.

The Plan's investment policy is set forth in various sections of the IPS which:

- State the Plan's objectives, guidelines and constraints in the investment of all assets.
- Describe the diversified investment portfolio to be offered.
- Establish guidelines for the portfolio that impact the assumed level of risk and return.
- Establish formal criteria to enable the Trustees to regularly monitor, evaluate and compare the performance results achieved by the money managers.

## **DESIGN OF INVESTMENT POLICY AND GUIDELINES**

The foundation of the IPS is the Asset Allocation Study (Study) was conducted in three phases. At its conclusion, the Study provided the Trustees with the single most "optimal" asset allocation guideline which will result in the highest expected rate of return for a given level of risk.

To accomplish this objective, the Study first carefully evaluated and established the required rate of return and risk suitable to achieve the Plan's stated objectives. As part of this process, the Study considered all appropriate investment opportunities within applicable legal and fund guidelines, projected the future range of financial results from such opportunities (individually and in combination), and integrated projected results of future contributions and distributions.

### **Phase One: Assumptions**

Phase One established the risk and return assumptions for the various asset classes to be considered. At a minimum generally five such asset classes, including large and small capitalization common stocks, long and intermediate term bonds, foreign investments and cash equivalents are included.

Assumptions on risk and return were set in the context of historical performance data for each asset class in addition to the historical interrelationships of the capital markets, and current projections for interest rates and inflation.

## **Phase Two: Range of Allocation Configurations**

In Phase Two, the Study determined the complete range of "efficient" asset allocation configurations. In doing so, the selected asset classes were combined with their risk and return assumptions, and computerized optimization process determined all efficient portfolios. Of course, all policy or legal restrictions were incorporated into both Phase One and Phase Two.

Each allocation configuration was "efficient" in terms of having the lowest level of risk for a given level of return (or, alternatively, has the highest expected return for a given risk level).

## **Phase Three: Investment Policy Statement**

Phase Three defined discrete portfolio components for which investment managers/mutual funds were to be selected. The completed Study permitted the Trustees to translate the established risk/reward characteristics of each component, and for the portfolio as a whole, into specific, written "job descriptions" and performance benchmarks for each investment manager. Additionally, similar objectives were established for the composite portfolio. The IPS will provide a foundation for regular measurement and evaluation of performance results in the future as well as a basis for measuring the performance of each investment manager according to the expected return and risk for the portfolio.