

**MFPRSI** MUNICIPAL FIRE & POLICE  
RETIREMENT SYSTEM OF IOWA

# INVESTMENT PROGRAM IMPLEMENTATION AND OVERSIGHT

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# Introduction

The Board of Trustees (the “Board”) of the Municipal Fire and Police Retirement System of Iowa (“MFPRSI” or “retirement system”) acknowledges their responsibility as fiduciaries of the retirement plan established by Iowa Code Chapter 411 for the police officers and fire fighters in Iowa’s largest cities. In the management and administration of the investment assets of the retirement system, the Board endeavors to serve the long-term interests of the plan, its membership, and their employers. To fulfill its responsibilities, the Board meets in public session on a scheduled basis throughout the calendar year.

In consideration of the fiduciary obligations as prescribed by Iowa Code 411.7 (see Attachment One), the retirement system has established a comprehensive approach to implementation and oversight of the investment program.

As prescribed in Iowa Code 97B7A(1)(a), the investment program is governed by the “Prudent Person Rule.” This concept states that an investment be made with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an entity of a like character with like aims (see Attachment One - Statutory Provisions). Under the conceptual framework established by the Prudent Person Rule, the Board has adopted specific policies for MFPRSI’s investment program.

This document describes in detail the components of the program involving the Board, management and staff of the retirement system (the “management” and “administration”), external legal counsel, external auditor, and external investment consultant. Questions concerning the program should be directed to the Executive Director of the retirement system.

The components of the program are as follows:

1. Policy Development & Adoption
2. Policy Implementation
3. Policy Management
4. Policy Oversight

# Policy Development & Adoption

## Establishment of Administration

The Board has appointed an Executive Director and administration to manage the retirement system, including the investment program. The administration performs the following pertaining to the investment program on behalf of the Board:

- Coordinates the development of the *Statement of Investment Policies and Objectives* which identifies the various policy issues affecting MFPRSI's investment of assets.
- Makes recommendations concerning changes in the objectives, guidelines, or standards based upon material and sustained changes in the capital markets.
- Administers the various policies delineated by this document to include the development of the asset allocation policy. Executes decisions made by the Board concerning the investment program.
- Participates in periodic review meetings with the Board to evaluate and assess the performance and quality of the individual managers. Periodically, meets with individual investment managers, the custodian bank, and consultants to assess the quality of the services being provided to MFPRSI.
- Establishes contracts with the support of MFPRSI's legal counsel with investment managers, consultants, and the custodian bank.
- Votes the shares of MFPRSI's equity assets through the proxy process in consideration of its economic interests or directs the managers to vote the proxies of the retirement system.
- Upon authorization of the Board and the establishment of specific guidelines, manages a portion of the retirement system's assets.
- Directs managers to raise cash from the portfolio and transfers appropriately for rebalancing or fund-raising purposes.

## Identification and Utilization of Consultant

In consideration of its fiduciary obligations, the Board has determined to utilize an external investment consultant (the "investment consultant"). The investment consultant provides the following services in regards to the investment program:

- Supports the development of the *Statement of Investment Policies and Objectives* which identifies the various policy issues affecting the retirement system's investment of assets.
- Makes recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards based upon material and sustained changes in the capital markets.
- Makes recommendations, with supporting materials, as to the appropriate portfolio weights among the various major asset classes (stocks, bonds, and

cash) within the funds and among the sizing of individual investment managers within the funds.

- Assists the Board in the conduct of manager selections and ongoing due diligence by:
  - Identifying and screening candidates for appropriate portfolio and organizational characteristics.
  - Performance of due diligence reviews and evaluations.
  - Quantifying the analysis between expected returns and risks among various investment alternatives.
  - Functioning as an information-gathering agent.

### **Market Review and Commentary Examination**

The duty of the investment program involves the ongoing review of market conditions, market events, market opportunities, and consideration of investment policy alternatives by both the administration and investment consultant. Included within this ongoing evaluation is the examination of specific investment portfolio concepts.

### **Board Education**

In recognition of the importance of providing opportunities for Board members to achieve and maintain the information and knowledge necessary to perform their duties as members of the Board, and to maintain contacts within the industry, it is desirable to establish reasonable guidelines and procedures to govern travel by Board members for purposes of education and exchange of information and ideas.

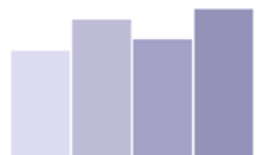
#### Education and Orientation

Each Board member will participate in fiduciary education as provided by MFPRSI, and also engage in an approved educational meeting at least once every two years. MFPRSI will maintain a list of approved meetings. Each new member of the Board will participate in an orientation provided by MFPRSI, developed by the Executive Director, and presented by the administration and legal counsel. Board members will complete the orientation within 60 days of being appointed. The orientation will cover, at minimum, the following topics:

- Fiduciary duties of Board members.
- Investment policy.
- Disability program.
- Current annual report of the retirement system.
- Current actuarial valuation of the retirement system.
- Review of Board policies.
- Review of most recent Board meeting materials.

### **Asset Allocation**

At least every five years the Board conducts an asset allocation study which involves examining current and long-term liabilities of the benefit plan and various investment policy allocation



alternatives. Subsequent to each review, the Board establishes an asset allocation policy which stipulates the markets into which the assets are to be invested.

### **Annual Review by Board and Adoption of Policy Statement**

Annually, as specified by Iowa Code Chapter 411, the Board reviews and adopts a *Statement of Investment Policies and Objectives* for the investment program. The policy addresses each of the following:

- Purpose, goals, and policies for the investment program.
- Responsibilities of the various parties.
- Adopted asset allocation policy.
- Guidelines for investment of the assets.
- Investment objective and performance standards.



# Policy Implementation

In order to actualize the investment policy, the administration and consultant undertake various steps to establish individual portfolios for each of the components of the allocation policy. The following section describes implementation of the policy as established by the Board.

## Portfolio Manager Identification

The investment consultant performs the following due diligence in order to identify and ultimately recommend investment firms for management of the portfolios.

### Sourcing

The investment consultant relies upon a variety of methods to identify firms for initial consideration, including:

- The information gathered during conference calls and meetings.
- Industry networking.
- Quarterly quantitative screening.

### Selection

The consultant performs the following for firms that warrant consideration:

#### Initial Due Diligence:

- Meets with firms under deliberation at least once.
- Convenes with portfolio managers and decision makers.
- Decides whether or not to continue due diligence.

#### Full Evaluation:

- Distributes comprehensive Request For Information (RFI) and reviews responses.
- Reviews both qualitative and quantitative aspects of the firms and investment portfolio capabilities.
- Engages in on site due diligence which includes rigorous fee negotiations.
- Compares the firm to those firm(s) already monitored.

#### Decision:

- Recommendations made by analysts.
- Senior consultants and senior managers of research staff meet as an internal investment committee to discuss and vet recommendations.
- Maintains and updates quarterly an ordered listing of investment firms, identified as “top-tier,” “second-tier,” and “watch.”

## Due Diligence

The due diligence process performed by the investment consultant addresses:

### Operations and Infrastructure:

- Management company information including firm ownership.
- Assets under management (AUM).
- Key non-investment professionals.
- Firm employee turnover.
- Internal policies, procedures, and control environment.
- Trading management and historic fund turnover.
- Proposed product fees.
- Technology integration.
- Business continuity plans (BCP).

### Regulatory, Compliance, and Reference Checks:

- Regulatory registration.
- Conflict and compliance (e.g., affiliated entities, trade error policies, employee trading, etc.).
- Legal and regulatory.
- Global Investment Performance Standards (GIPS) compliance.
- Errors and omissions insurance.
- References (e.g., other investors, custodian, press search, etc.).

### IMA and ADV Review:

- Investment Management Agreement (IMA) (e.g., account information, account terms, fees and expenses, portfolio limits, etc.)
- ADV form (e.g., ownership, regulatory disclosures, related entities, soft dollar limits, custody, disciplinary history disclosures, criminal and regulatory disclosures, etc.)

## Recommendation

As necessitated by MFPRSI's allocation policy, the investment consultant recommends individual firms for consideration by the Board from those identified as acceptable candidates.

## **Portfolio Manager Selection & Due Diligence**

The administration performs the following to evaluate the recommendations of the investment consultant:

- Conducts interviews of prospective firms and performs additional on-site due diligence.
- Evaluates the investment portfolio opportunities in consideration of the established policy.





## **Board Determination**

During the process of identifying and selecting investment managers, the Board is periodically advised concerning information gathered; in particular, the Board is apprised as to how the portfolios managed by the prospective firms will meet the needs of the *Statement of Investment Policies and Objectives*.

Upon completion of the described processes, a final recommendation is made by the consultant and administration to the Board regarding the portfolio managers and specific portfolios. The Board then discusses this information with the investment consultant and administration and makes a determination as to whether to establish a contract/legal relationship with the firm. If the Board decides to proceed, the establishment of a new relationship is pursued subject to completion of negotiations involving investment terms and legal relationship.

## **Contractual Relationships**

The contractual review considers the legal relationship of separately managed accounts and commingled investment vehicles where appropriate to meet an individual investment objective of MFPRSI. In each case, a distinct investment contract or agreement is established defining the legal obligations of the investment firm and the investment policy for the portfolio.

Pertaining to separately managed accounts, negotiations of the legal terms are completed by MFPRSI's external legal counsel in consultation with the administration. Investment terms are negotiated by MFPRSI's management with support of the investment consultant, as warranted. In each case an acceptable IMA between the retirement system and the investment firm engaged to manage the specific investment is established.

With regards to investments in commingled investment vehicles, the legal counsel reviews applicable investment documents (subscription agreements, private placement memorandums, limited partnership agreement, and/or trust agreements, etc., collectively the "investment documents") for the commingled investment vehicle for form and content and provides counsel to the Board and management regarding the retirement system's rights, remedies and legal risk associated with a particular investment fund or account. In some cases legal counsel assists the administration in negotiating amendments or letter agreements to supplement the investment documents to achieve acceptable legal and business risks and to reflect legal obligations of the retirement system.

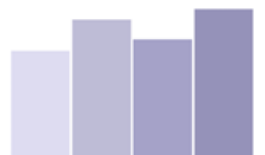
If negotiations are unsuccessful, the Board is advised the relationship will not be established.

The contractual review endeavors to identify and minimize legal risk associated with the following concepts which are to be addressed in the documents:

- Legal structure and contractual relationships, standard of care and fiduciary duties of investment managers and fund managers, indemnification requirements, withdrawal rights, liquidity issues, disclosure and MFPRSI's obligations under

Iowa's open meeting and open record laws, jurisdiction, litigation, authority designation, limitations on liability, protections of MFPRSI's assets, audit rights, reporting, permissible securities and transactions, and adherence to the retirement system's *Statement of Investment Policies and Objectives* and general legal compliance.

If negotiations are successful, the Board is advised negotiations have been successful and upon final authorization by the Board, the administration completes the applicable investment management agreement or investment documents to establish and initiate the investment.



# Policy Management

MFPRSI has established procedures to provide for the ongoing management of investment relationships. Those processes are discussed herein.

## Fund Allocation and Rebalancing

A newly established account is identified for each portfolio at MFPRSI's custodian bank.

### Internal procedures for the movement of money:

- Assets are moved based on internal procedures involving controls as provided by the custodial bank contract and the agreements established with each firm.

### The procedures involving the movement of money entail:

- A letter of direction authorized by two members of management is faxed to the custodian bank.

The administration and investment consultant monitor actual allocation versus the policy to ensure the investment portfolio remains compliant.

## Operational Controls

All cash moved from one investment portfolio to another must pass through the custodian bank's "cash" account. This control assures that all movements can be tracked and inflows and outflows can be verified.

## Ongoing Due Diligence Reviews & Evaluation

MFPRSI has a systematic approach to the conduct of ongoing due diligence associated with each portfolio and each investment firm, involving the following regular activities:

### Quarterly Calls:

- Regularly scheduled calls are conducted with each firm to review performance, portfolio activity, organizational issues, and legal and regulatory issues that pertain to the firm and management of the retirement system's portfolio. Incorporated into the calls is a review of current performance reports that include descriptions of the activity associated with the portfolio.

### Scheduled Direct Interface:

- The administration visits each firm on a regularly scheduled basis to conduct reviews of operational controls and procedures. Detailed control documents are developed and maintained concerning each firm.

#### Additional Interface:

- As necessary to address issues and concerns, the administration requires the applicable investment firm to meet and discuss any and all issues concerning the management of the investment portfolio.
  - Additionally, the administration participates in annual client meetings as conducted by the firms and as appropriate to the needs of MFPRSI.

#### Board Interface:

- Each firm is interviewed by the Board on a regularly scheduled basis concerning its management of the portfolio. This interview includes a variety of topics, including, but not limited to the following: operational issues, organizational issues, legal and regulatory issues, portfolio implementation, and performance review.

#### Consultant Interface:

- Each firm meets with the consultant at a minimum of once per year to discuss any changes to firm, team, process, or portfolio as well as review performance attribution and forward-looking investment outlook.

#### Monitoring of Issues:

- The administration completes the following systematic steps pertaining to the investment firms and portfolios:
  - Performs a regular screening of investment news to identify any topics or issues pertaining to the firms, with follow-up to the investment firms concerning topics of importance to MFPRSI.
  - Conducts examination of the records and reports submitted by the firms, as submitted in compliance with legal agreements.
  - On a weekly basis, conducts a discussion concerning the status of each firm, in particular any outstanding issue or concern as identified by the administration.
  - Requires the firms to submit regular statements concerning the obligations of the legal agreements, including compliance with ethics and regulatory policies, and the management of the portfolio.



# Policy Oversight

## Performance Reviews

Each investment manager is regularly invited to give a presentation to the Board at the retirement system's offices. In addition to organizational and operational issues, each investment manager is required to provide a comprehensive report and discuss its activities in the context of the specific market sectors in which investments have been made. Included in this discussion are any legal and regulatory issues that may be associated with each investment firm.

At each Board meeting the retirement system's management and investment consultant provide reports concerning the current and pending activities within the program, identify any issues of major concern, and recommend action pertaining thereto.

The Board evaluates the available information and takes steps necessary to protect the assets of the plan as well as achieve the objectives of the investment program.

## External Audit

A comprehensive audit is performed annually by an external auditor. This audit includes a review of MFPRSI's internal controls. Any weaknesses noted are communicated to management and the Board.

An audit report prepared annually by a local public accounting firm is submitted to the Board for approval. Upon approval, the report is forwarded to the State Auditor.

# Attachment One - Statutory Provisions

## 411.7 Management of Fund

1. The Board is the trustee of the fire and police retirement fund created in section 411.8 and shall annually establish an investment policy to govern the investment and reinvestment of the moneys in the fund, subject to the terms, conditions, limitations, and restrictions imposed by subsection 2 and chapters 12F and 12H. Subject to like terms, conditions, limitations, and restrictions the retirement system has full power to hold, purchase, sell, assign, transfer, or dispose of any of the securities and investments in which the fund has been invested, as well as of the proceeds of the investments and any moneys belonging to the fund.
2. The secretary of the Board shall invest, in accordance with the investment policy established by the Board, the portion of the fund established in section 411.8 which in the judgment of the Board is not needed for current payment of benefits under this chapter in investments authorized in section 97B.7A for moneys in the Iowa public employees' retirement fund.
3. The secretary of the Board is the custodian of the fire and police retirement fund. All payments from the fund shall be made by the secretary only upon vouchers signed by two persons designated by the Board. MFPRSI may select master custodian banks to provide custody of the assets of the retirement system.
4. A member or employee of the Board shall not have any direct interest in the gains or profits of any investment made by the Board, other than as a member of the retirement system. A trustee shall not receive any pay or emolument for the trustee's services except as secretary. A member or employee of the Board shall not directly or indirectly for the trustee or employee or as an agent in any manner use the assets of the retirement system except to make current and necessary payments as authorized by the Board, nor shall any trustee or employee of the system become an endorser or surety or become in any manner an obligor for moneys loaned by or borrowed from the retirement system.
5. Except as otherwise provided in section 411.36, a member, employee, and the secretary of the Board shall not be personally liable for a loss to the fire and police retirement fund, the loss shall be assessed against the fire and police retirement fund, and moneys are hereby appropriated from the fund in an amount sufficient to cover the losses.

## 97B.7A Investment and Management of Retirement Fund - Standards - Immunity

1. Investment and investment policy standards.

In establishing the investment policy of the retirement fund and providing for the investment of the retirement fund, the retirement system and Board shall do the following:

  - a. Exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for the purpose of speculation, but with regard to the permanent disposition of the funds, considering the probable income, as well as the probable safety, of their capital.

- b. Give appropriate consideration to those facts and circumstances that the retirement system and Board know or should know are relevant to the particular investment or investment policy involved, including the role the investment plays in the total value of the retirement fund.
- c. For the purposes of this subsection, appropriate consideration includes, but is not limited to, a determination that the particular investment or investment policy is reasonably designed to further the purposes of the retirement system, taking into consideration the risk of loss and the opportunity for gain or income associated with the investment or investment policy and consideration of the following factors as they relate to the retirement fund:
  - 1. The composition of the retirement fund with regard to diversification.
  - 2. The liquidity and current return of the investments in the retirement fund relative to the anticipated cash flow requirements of the retirement system.
  - 3. The projected return of the investments relative to the funding objectives of the retirement system.

