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## **Operating Procedures**

*for*

**Austin Fire Fighters Relief and Retirement Fund**

***Table of Contents***

I. Available Asset Classes .....3

II. Market Assumptions .....4

III. Asset Allocation Targets .....5

IV. Asset Class Diversification: Sub-Asset Class Targets .....6

V. Investment Manager Selection and Termination.....7

VI. Investment Manager Fee Reconciliation and Payment.....7

VII. Performance Objectives .....7

VIII. Asset Class Guidelines .....8

IX. Class Action Lawsuit Policy .....~~101~~

Appendix A: Benchmark Table .....~~132~~

**I. Available Asset Classes**

In accordance with Section VI of the Statement of Investment Policies and Objectives (the “Policy”) for the Austin Fire Fighters Relief and Retirement Fund (the “Fund”), the Board of Trustees of the Fund (the “Board”), with advice from the investment consultant, has determined the following asset classes will be available for investment by the Fund.

Asset Class
Public Domestic Equity
Public Foreign Equity
Emerging Market Equity
Frontier Market Equity
Private Equity
Private Debt
Real Estate
Investment Grade Bonds
TIPS
High Yield Bonds
Bank Loans
Developed Market Bonds
Emerging Market Bonds
Natural Resources
Infrastructure
Commodities
Hedge Funds
Cash

## II. Market Assumptions

In accordance with Section VII of the Policy, the Board has adopted the following market assumptions for use in determining the asset allocation plan for the Fund, including the various asset class targets set forth in these Operating Procedures. These expected return and standard deviation assumptions are based on a twenty-year forecast for broad asset classes and sub-asset classes from Meketa Investment Group's ~~2021-2022~~ Annual Asset Study. Expected returns are annualized compounded returns.

Asset Class	Annualized Average Return (%)	Annualized Standard Deviation (%)
<b>Fixed Income</b>		
Cash Equivalents	<del>1.1</del> <u>1.7</u>	1.0
Investment Grade Bonds	<del>1.8</del> <u>2.4</u>	4.0
Long-term Government Bonds	<del>2.5</del> <u>2.8</u>	12.0
TIPS	<del>1.8</del> <u>2.4</u>	7.0
High Yield Bonds	<del>4.2</del> <u>4.4</u>	11.0
Bank Loans	4.0	<del>9.0</del> <u>10.0</u>
Emerging Market Bonds (local; unhedged)	<del>3.9</del> <u>4.6</u>	<del>14.0</del> <u>13.0</u>
Emerging Market Bonds (major)	<del>3.7</del> <u>4.2</u>	<del>14.0</del> <u>12.0</u>
Mezzanine Debt	<del>6.9</del> <u>7.2</u>	16.0
Distressed Debt	<del>7.0</del> <u>7.7</u>	21.0
<b>Equities</b>		
Public U.S. Equity	6.8	18.0
Public Developed Market Equity	<del>7.1</del> <u>7.5</u>	19.0
Public Emerging Market Equity	<del>8.1</del> <u>8.4</u>	24.0
Public Frontier Market Equity	<del>8.9</del> <u>8.7</u>	21.0
Private Equity	<del>9.1</del> <u>10.0</u>	28.0
Private Equity Fund of Funds	<del>8.0</del> <u>8.6</u>	24.0
Long-Short Hedge Funds	<del>3.8</del> <u>4.1</u>	10.0
<b>Real Assets</b>		
Core Private Real Estate	<del>5.5</del> <u>6.1</u>	12.0
Value Added Real Estate	<del>7.7</del> <u>8.1</u>	20.0
Opportunistic Real Estate	<del>9.2</del> <u>9.6</u>	26.0
Natural Resources (Private)	<del>8.3</del> <u>8.5</u>	<del>23.0</del> <u>24.0</u>
Commodities	<del>3.7</del> <u>4.6</u>	17.0
Infrastructure (Core)	<del>7.0</del> <u>7.3</u>	14.0
Infrastructure (Non-Core)	<del>9.0</del> <u>9.3</u>	22.0
<b>Other</b>		
Hedge Funds	<del>4.3</del> <u>4.4</u>	7.0
Hedge Fund of Funds	<del>3.4</del> <u>3.6</u>	7.0

**III. Asset Allocation Targets**

In accordance with Section VI of the Policy, the Board has established its strategic asset allocation mix so as to achieve its long-term investment goal of accumulating reserves necessary to provide the established benefits to the participants and their beneficiaries.

Market movements may cause a portfolio to differ from this strategic mix. The desire to maintain this constant strategic mix must be balanced with the real cost of portfolio rebalancing. Therefore, a range has been set for the actual asset allocation of the Fund’s assets to allow for the fluctuations that are inherent in marketable securities.

The target allocations and rebalancing trigger percentages are:

<u>Broad Asset Classes</u>	<u>Low Trigger</u>	<u>Target</u>	<u>High Trigger</u>
Equities	30%	42%	55%
Fixed Income	20%	30%	40%
Alternatives*	10%	28%	40%

\*(Including Private Equity, Real Estate, and Natural Resources)

It is the responsibility of the custodian to calculate market values and report these to staff and consultant monthly.

#### IV. Asset Class Diversification: Sub-Asset Class Targets

Within the broad definition of equities and fixed income for allocation purposes, the Trustees, with advice from the consultant, believe it is prudent to diversify within asset classes. The sub-asset class categories, as well as the asset allocation among such sub-asset classes, are set forth below. The Policy Benchmarks set forth below are used to determine the composite Policy Index described in Section VII of these Operating Procedures.

	<b>Target</b> (%)	<b>Range</b> (%)	<b>Policy Benchmark</b>
Public Domestic Equity	20	13-27	Russell 3000
Public Foreign Equity	22	15-29	MSCI ACWI (ex. U.S.)
Private Equity	15	5-25	MSCI ACWI +2% on a 3 Month Lag
Investment Grade Bonds	13	10-20	Bloomberg Barclays Aggregate
TIPS	5	0-10	Bloomberg Barclays U.S. TIPS
High Yield/Bank Loans	5	0-10	50% Merrill Lynch High Yield 50% Credit Suisse Leverage Loan Index
Emerging Market Debt	7	0-10	Custom EMD Benchmark <sup>1</sup>
Core Real Estate	5	0-10	NCREIF ODCE Equal Weighted (net)
Value Add Real Estate	5	0-10	NCREIF Property NPI
Private Natural Resources	3	0-5	S&P North American NR
Cash	0	0-5	

<sup>1</sup> Custom EMD Benchmark is 50% JPMorgan EMBI Global Diversified, 25% JPMorgan GBI-EM Global Diversified (unhedged), and 25% JPMorgan CEMBI Broad.

## **V. Investment Manager Selection and Termination**

When hiring or terminating investment managers, the Fund Staff, in consultation with the investment consultant, will summarize in the Board meeting minutes, the key factors that led to the decision.

## **VI. Investment Manager Fee Reconciliation and Payment**

Fund Staff is primarily responsible for reconciliation and payment of all investment manager fees. Independently a pre-identified Trustee shall verify each requested manager fee payment.

If either party identifies a discrepancy relative to the invoice, Fund Staff shall request additional explanation from the investment manager prior to payment.

If an error is found, Fund Staff must request a correction from the investment manager prior to payment.

## **VII. Performance Objectives**

In accordance with Section II.C. of the Policy, the overall performance objective of the Fund is to achieve a high likelihood of outperforming the total return of an index composed of a mix of asset class benchmarks over a market cycle. This composite “Policy Index” will be calculated using the sub-asset class target percentages and the Policy Benchmarks set forth in Section IV of these Operating Procedures. The investment consultant will set forth the composition of the Policy Index in its quarterly reports to analyze the overall performance of the Fund.

With respect to investment manager performance, over a market cycle or five years, whichever is shorter, the performance objective for each manager is to add value after fees to a specified benchmark representing a particular investment style, net of fees. These specific style benchmarks for investment managers are set forth in Appendix A. Short-term examination of each manager’s performance will also focus on style adherence and peer comparisons.

Passive investment products are expected to match the return of their respective benchmark, gross of fees.

## VIII. Asset Class Guidelines

In accordance with Section VI of the Policy, set forth below are the investment guidelines applicable to each broad asset class available for investment by the Fund. Additional investment guidelines are contained within each agreement between the Fund and individual investment managers (for separately managed accounts).

### A. Public Equities

1. Eligible holdings:  
The portfolios will be invested in publicly traded marketable securities. Restricted or letter stock are not permitted.
2. Style Adherence:  
Managers are expected to not deviate from the particular style they were selected to manage. Quarterly, fundamental portfolio characteristics and style benchmarks comparisons will be monitored for adherence to a manager's identified style. The capitalization of each stock in an equity manager's portfolio shall be within the cap range of the above identified style benchmark when purchased. Managers are expected to stay within the cap range of their dedicated strategy and are instructed to provide notification of any material changes to strategy. Currency management is at the discretion of active international managers.

### B. Public Fixed Income

1. Eligible holdings:  
The portfolios shall be invested in publically traded marketable securities. Private placement bonds are not permitted. 144(a) fixed income securities are allowable.
2. Portfolio Quality – Core:  
Dedicated core fixed income products should be predominantly invested in investment grade securities, as defined by market ratings agencies (e.g. Moody's, Standard & Poor's). Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A (standard & Poor's) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short term commingled fund.

### C. Closed End Alternatives (Private Equity, Real Estate, Natural Resources)

1. Management:  
Investments in closed end vehicles shall be made only through professionally managed, institutional limited partnerships or limited liability corporate vehicles.



2. Diversification:

The closed end alternatives portfolio will be prudently diversified. Further, the private equity portfolio in aggregate shall be diversified by: industry groups, company, number of transactions, stage of company maturity, form of investment, geography and vintage year. Investment in non-U.S. limited partnerships is permitted. The long-term nature of private equity investments and vintage year diversification shall be emphasized so that the Fund, as a long-term investor, may properly take advantage of the private negotiation of transactions and the liquidity premium associated with private markets investments.

3. Over-commitment:

The implementation of a private markets program by the Fund shall be made over time so as to increase vintage year diversification. The timing of new commitments shall be spread out so as to avoid undue concentration of commitments in any one-year. The Board recognizes that it will be necessary to make capital commitments in excess of the target allocation for private markets investments in order to achieve the target allocation and subsequently maintain it. The Investment Consultant shall monitor the amount of capital committed, drawn, invested and distributed and make recommendations to the Board of Trustees as needed.

4. Monitoring:

The Staff, Board and Consultant will collectively monitor and administer the underlying limited partnership investments in a prudent manner, in part, by:

1. administering capital calls and distributions,
2. employing financial monitoring and reporting systems,
3. maintaining an understanding of the limited partnership's holdings and activities, including periodic discussions with the general partners and attending partnership investor meetings as appropriate,
4. attending to partnership amendments or other matters related to the underlying partnerships in the best interest of the Fund, and
5. liquidating stock distributions.

## **IX. Class Action Lawsuit Policy**

From time to time, the Board may determine, with the advice and assistance of the Fund's Outside Counsel (if requested), that it is in the best interest of the Fund's participants and beneficiaries to participate in securities class action lawsuits where the Fund has been harmed due to securities fraud or other violations that negatively impact the value of securities held by the Fund.

### **A. Monitoring Securities Litigation Matters**

It shall be the Fund custodian's primary responsibility to monitor all securities class action litigation matters on behalf of the Fund, to manage the timely and effective filing of proofs of claim in securities class action litigation matters that have already reached settlement in respect of investments held by the Fund, and to report to the Fund Administrator as necessary. In addition, the Fund Administrator shall notify the investment manager(s) who manage the affected securities of any potential or pending legal action.

However, in those securities class action lawsuits or other securities litigation matters in which the Fund has retained a law firm to represent the Fund as lead plaintiff or class representative or to actively monitor the progress of the case in accordance with Section D, then the law firm shall be responsible for the timely and effective filing of proofs of claim in such lawsuits on behalf of the Fund and will notify, in writing, the Fund Administrator, the Fund's custodian and any applicable investment manager(s) of the proofs of claim that have been filed on behalf of the Fund.

### **B. Active Involvement in Securities Litigation Cases**

In addition to the routine filing of proofs of claim as described above, the Fund at its sole discretion may consider and assess whether and under what circumstances it may choose to become more actively involved in securities class action litigation or other securities litigation matters from time to time.

To this end, the Fund may at its discretion retain one or more law firms experienced in securities litigation matters to review and monitor potential and filed securities class action lawsuits and/or other securities litigation lawsuits and to bring to the attention of the Fund meritorious cases that the law firm concludes are worthy of further monitoring or involvement by the Fund and for which the Fund has suffered losses on its investment.

Generally, the Fund will not seek lead plaintiff status, opting instead for filing a proof of claim when appropriate, unless after consultation with the Fund's Outside Counsel and any law firm retained by the Fund to monitor and report securities litigation to the Fund, the Board believes that serving as lead plaintiff would be in the best interest of the Fund. It is within the sole discretion of the Board to determine if and when it would be in the best interest of the Fund to seek lead plaintiff status or to become more actively involved in a securities litigation case.

If one of the Fund's retained law firms believes that a securities litigation case has merit and the Fund would be a good candidate to serve as the lead plaintiff in the case, the law firm shall present its recommendations in writing to the Fund Administrator, including a statement as to whether the law firm would recommend that the Fund actively monitor the case, seek lead plaintiff status or class representative status, or take some other course of action with respect to the particular securities class action lawsuit or other securities litigation lawsuit.

The Fund Administrator, in consultation with the Fund's Outside Counsel, will review all such recommendations and will evaluate the case and the law firm's recommendation considering the factors listed below. After such review and further consultation with the securities litigation law firm, the Fund Administrator will present, or may request that the law firm present, to the Board a recommendation regarding the Fund's involvement in the case if the securities litigation firm continues to recommend active involvement after consultation with the Fund Administrator.

After receiving the presentation described above, the Board shall have sole authority and discretion to decide whether the Fund should actively monitor the case, seek lead plaintiff status or class representative status, or take some other course of action. The Board may seek the advice of its Outside Counsel on such matters.

In evaluating any securities litigation case, the Board shall consider all relevant factors related to the Fund's participation in such lawsuit, including, without limitation, the following:

1. Strength of the merits of the claims and defenses involved in the case;
2. Alleged losses or damages to the Fund equal or exceed a minimum of \$250,000, unless there are unique or special circumstances about the Fund's interest in the case or the losses sustained by the Fund that may support the Fund's involvement at a lesser threshold;
3. Facts unique to the Fund that make it well-suited to serve as lead plaintiff, including the Fund's standing to represent a broad class of claimants or investors;
4. The estimated time and expense required of Fund staff and the Fund's Outside Counsel in order for the Fund to serve as lead plaintiff (i.e., certification of the class, assistance with discovery, review of pleadings and court filings, monitoring litigation and outside securities litigation counsel, settlement negotiations, etc.) and the ability to recover such costs through a favorable judgment or otherwise;
5. Estimated court costs;
6. Venue of litigation;
7. Reasonable potential for monetary recovery under a judgment (i.e., available resources of defendants, insurance coverage, possibility of bankruptcy, other suitable lead plaintiffs, etc.);

8. Whether the Fund is involved in other litigation; and
9. Qualifications of the law firm (or firms) bringing the recommendation based on the factors set forth in Section D below.

### **C. Securities Litigation Matters in Foreign Jurisdictions**

The Fund may consider participating in securities litigation lawsuits that are brought or filed in foreign jurisdictions. The Fund will follow the same process set forth in Section B above in evaluating an international case and its involvement in such case.

In addition to the factors set forth in Section B above, the Board shall also consider all applicable foreign laws and regulatory requirements and the related risks that may apply to securities litigation claims brought in the particular jurisdiction, including without limitation, any unique jurisdictional requirements to prove the claim, the level of participation required by the Fund pursuant to foreign law, and the identity and qualifications of foreign counsel, if any, and their experience in pursuing litigation of this nature.

### **D. Selection of Securities Litigation Law Firm to Actively Represent the Fund**

If the Board decides to seek lead plaintiff status or become actively involved in a case, the Board may hire one of the Fund's retained securities litigation law firms or another law firm experienced in securities litigation matters to advise and represent the Fund as lead plaintiff or otherwise in the case.

Generally, the Board will select the law firm (or one of the law firms) that brought the case to its attention to actively represent the Fund in the case. In the event more than one law firm recommends that the Fund actively seek participation in a case, the Board will select the firm that the Board believes will best represent the interests of the Fund in such case after considering all relevant factors, including, without limitation, the firm's:

1. Prior experience and demonstrated success in similar cases;
2. Experience and prior appearances in the particular venue of the case;
3. Quality of the analysis and presentation of the case to the Board, including the analysis of the factors relevant to the Fund's participation in the case as set forth in Section B above; and
4. Willingness and financial security of the firm to fund the cost of the litigation on a contingent fee arrangement (i.e., availability and timing of reimbursements for Fund staff time and expense and/or Outside Counsel involvement, specific terms of fee or reimbursement arrangement, sufficient level of malpractice insurance, etc.).

## Appendix A: Style Benchmarks

Asset Class and Style	Index Benchmark
<b>Core Fixed Income</b>	Bloomberg Barclays Aggregate Bond Index
<b>Core Plus Fixed Income</b>	Bloomberg Barclays Aggregate Bond Index
<b>TIPS</b>	Bloomberg Barclays U.S. Treasury TIPS Index
<b>Emerging Market Debt</b>	JPM EMBI Global Diversified or Custom Benchmark
<b>High Yield</b>	Merrill Lynch High Yield
<b>Bank Loans</b>	Credit Suisse Leveraged Loan Index
<b>Large Cap Core</b>	S&P 500 or Russell 1000
<b>Large Cap Value</b>	Russell 1000 Value
<b>Large Cap Growth</b>	Russell 1000 Growth
<b>Mid Cap Core</b>	Russell Mid Cap
<b>Mid Cap Value</b>	Russell Mid Cap Value
<b>Mid Cap Growth</b>	Russell Mid Cap Growth
<b>Smid Cap Core</b>	Russell 2500
<b>Smid Cap Value</b>	Russell 2500 Value
<b>Smid Cap Growth</b>	Russell 2500 Growth
<b>Small Cap Core</b>	Russell 2000
<b>Small Cap Value</b>	Russell 2000 Value
<b>Small Cap Growth</b>	Russell 2000 Growth
<b>Micro Cap</b>	Russell Micro Cap
<b>International Developed</b>	MSCI EAFE
<b>International Developed w/ EM exposure</b>	MSCI ACWI ex - US
<b>International Developed Small Cap</b>	MSCI EAFE Small Cap
<b>Emerging Market Equity</b>	MSCI Emerging Markets
<b>Real Estate</b>	NCREIF ODCE Equal Weighted (net) or NCREIF Property NPI
<b>Private Equity</b>	MSCI ACWI +2% on a Three Month Lag
<b>Natural Resources</b>	S&P North American NR