

# Oklahoma Firefighters Pension and Retirement System

## Investment Guidelines Sub-Policy

to the

## Master Statement of Investment Policy, Objectives and Guidelines for the System

### I. Purpose and Objectives

This Investment Guidelines Sub-Policy (the "Sub-Policy") is a part of the Oklahoma Firefighters Pension and Retirement System (the "System") - Master Statement of Investment Policy, Objectives and Guidelines for the System (the "Investment Policy") and is intended only to complement the provisions outlined therein. The Board of Trustees of the System (the "Board") established this Sub-Policy to set forth the specific guidelines and objectives for the management of financial assets of the Oklahoma Firefighters Pension and Retirement Fund (the "Fund"). As such, in addition to compliance with the provisions of the Investment Policy, the Fund's investments must comply with the provisions of this Sub-Policy.

### II. Investment Manager Guidelines

#### A. Domestic Equity Investment Manager Guidelines

##### Investment Philosophy

1. Each Investment Manager is expected to manage a portfolio of U.S. domestic securities ("Domestic Equity Portfolio"). Any significant deviation from the Investment Manager's style of investment, as set forth in its contract with the Board, will require written approval from the Board.
2. Each Investment Manager is expected to earn the highest possible rate of return consistent with the risk tolerance, guidelines, and performance criteria established by the Board.
3. Passive Portfolio allocations (if any) are expected to match the return and risk profile (as measured by the standard deviation) of their appropriate benchmarks.

##### Investment Guidelines

1. Each Investment Manager is expected to maintain a fully-invested portfolio. Unless specifically stated otherwise in an Investment Manager's addendum, any cash allocation above a frictional amount will be at the Investment Manager's discretion.
2. Equity securities shall mean common stocks or the equivalent (ADRs, issues convertible into common stocks, etc.).
3. Domestic Equity Portfolio Investment Managers are prohibited from purchasing and holding securities on the Restricted Financial Company List maintained by the Oklahoma State Treasurer under the Oklahoma Energy Discrimination Elimination

Act of 2022. The current list of Restricted Financial Companies can be found at: [Energy Discrimination Act \(oklahoma.gov\)](https://www.oklahoma.gov).

4. Individual securities held by an Investment Manager in any one company shall not exceed the greater of 10% of the market value of the Investment Manager's Domestic Equity Portfolio or the individual security's weight in the manager's assigned benchmark index +3%.
5. The Investment Manager shall immediately notify the Board if the equity investment under management by the Investment Manager on behalf of all of its clients in any company exceeds 5% of the total market capitalization of said company.
6. Notwithstanding the provisions of Section II.C. Cash Investment Guidelines, the investment manager may use exchange-traded funds for the purpose of short-term equitization of unused funds, including cash, in the account due to contribution or pending withdrawal.
7. It is expected that the Domestic Equity Portfolio will be prudently diversified by industry.
8. The Domestic Equity Portfolio Investment Managers are not authorized to utilize leverage.
9. The use of any derivative securities not defined in this section of the Sub-Policy by Domestic Equity Portfolio Investment Managers is covered under Section VII.A. (General Policies – Derivatives) of the Investment Policy.
10. The System shall send correspondence to all Domestic Equity Portfolio Investment Managers engaged by the System through a comingled vehicle requesting the Investment Manager remove, and prohibit purchase of, securities on the Restricted Financial Company List from the comingled vehicle or create a similar comingled vehicle (and fee structure) devoid of such securities. If the Investment Manager creates a similar comingled vehicle that excludes securities on the Restricted Financial Company List, the System will evaluate the Investment Manager's current vehicle relative to the newly offered vehicle in a timeframe consistent with prudent investing standards and may move to the new vehicle if deemed appropriate for the System. Once sending the required correspondence, the System is not required to divest or limit additional purchases of the existing Investment Manager's comingled vehicle.

## **B. International Equity Investment Manager Guidelines**

### **Investment Philosophy**

1. Each Investment Manager is expected to manage a portfolio of non-U.S. securities ("International Equity Portfolio"). Any significant deviation from the Investment Manager's investment style, as set forth in its contract with the Board, will require written approval from the Board.
2. Each Investment Manager is expected to earn the highest rate of return consistent with the risk tolerance, guidelines, and performance criteria established by the Board.
3. Passive Portfolio allocations (if any) are expected to match the return and risk profile (as measured by the standard deviation) of their appropriate benchmarks.

## Investment Guidelines

1. Each Investment Manager is expected to maintain a fully-invested portfolio. Unless specifically stated otherwise in an Investment Manager's addendum, any cash allocation above a frictional amount will be at the Investment Manager's discretion. The cash assets of the International Equity Portfolio may be invested in short-term fixed income investments (cash equivalents).
2. The International Equity Portfolio shall consist of non-U.S. issues, including ADRs, convertible bonds, and U.S. registered securities, whose principal markets are outside the U.S.
3. International Equity Portfolio Investment Managers are prohibited from purchasing and holding securities on the Restricted Financial Company List maintained by the Oklahoma State Treasurer under the Oklahoma Energy Discrimination Elimination Act of 2022. The current list of Restricted Financial Companies can be found at: [Energy Discrimination Act \(oklahoma.gov\)](https://www.oklahoma.gov/energy-discrimination-act).
4. Individual securities held by an Investment Manager in any one company shall not exceed 10% of the market value of the International Equity Portfolio.
5. The Investment Manager shall immediately notify the Board if the equity investment under management by the Investment Manager on behalf of all of its clients in any company exceeds 5% of the total market capitalization of said company.
6. Notwithstanding the provisions of Section II.C. Cash Investment Guidelines, the investment manager may use exchange-traded funds for the purpose of short-term equitization of unused funds, including cash, in the account due to contribution or pending withdrawal.
7. It is expected that the International Equity Portfolio will be prudently diversified by industry, market capitalization, region, and country. While there are no percentage limits with regard to country weightings, the Investment Manager should use prudent investment judgment under the circumstances.
8. Currency hedging by Investment Managers within the International Equity Portfolio is allowed up to 25%. Hedging positions should be reported quarterly by those Investment Managers employing this strategy.
9. The International Equity Portfolio Investment Managers are not authorized to utilize leverage.
10. The use of any derivative securities not defined in this section of the Sub-Policy by International Equity Portfolio Investment Managers is covered under Section VII.A. (General Policies – Derivatives) of the Investment Policy.
11. The System shall send correspondence to all International Equity Portfolio Investment Managers engaged by the System through a comingled vehicle requesting the Investment Manager remove, and prohibit purchase of, securities on the Restricted Financial Company List from the comingled vehicle or create a similar comingled vehicle (and fee structure) devoid of such securities. If the Investment Manager creates a similar comingled vehicle that excludes securities on the Restricted Financial Company List, the System will evaluate the Investment Manager's current vehicle relative to the newly offered vehicle in a timeframe consistent with prudent

investing standards and may move to the new vehicle if deemed appropriate for the System. Once sending the required correspondence, the System is not required to divest or limit additional purchases of the existing Investment Manager's comingled vehicle.

## **C. Other Equity Portfolio Guidelines**

### **Investment Philosophy**

1. Each Investment Manager is expected to manage a portfolio of securities that function as an equity equivalent portfolio ("Other Equity Portfolio"). Any significant deviation from the Investment Manager's style of investment, as set forth in its contract with the Board, will require written approval from the Board.
2. The Other Equity Portfolio may be implemented through the direct engagement of an Investment Manager and/or through a fund of funds approach. As such, the Other Equity Portfolio may consist of a diverse set of strategies that are unrelated or have significantly different implementation and function within both the Domestic Equity Portfolio and the overall Fund.
3. The primary emphasis of Investment Managers in the Other Equity Portfolio should be to provide additional diversification, return enhancement and/or risk reduction to the traditional long only equity markets.

### **Investment Guidelines**

1. Investment Managers within the Other Equity Portfolio will generally utilize some combination of the following securities and/or strategies:
  - a. Traditional equity and fixed income securities as well as currencies;
  - b. Short-Selling;
  - c. Futures, options, and other derivatives;
  - d. Leverage; and
  - e. Illiquid securities.
2. If Other Equity Portfolio strategies are accessed through a fund of funds approach, each Investment Manager will have complete discretion to determine the proper asset allocation among fund strategies within the provisions of these guidelines.
3. As a surrogate to traditional equity Investment Managers in the Other Equity Portfolio should manage the portfolio in a style that is consistent with the stated investment strategy and provide low correlation to the long only equity and fixed income markets.
4. As a surrogate to traditional equity, unless specifically stated otherwise in an Investment Manager addendum, Investment Managers are expected to prudently diversify the portfolio across market capitalization, geography, industry, and size of positions.
5. Investment Managers should make all attempts to avoid all issues relating to Unrelated Business Taxable Income (UBTI).

## **D. Domestic Fixed Income Investment Manager Guidelines**

### **Investment Philosophy**

- 1 Each Investment Manager is expected to manage a portfolio of U.S. fixed income securities ("Domestic Fixed Income Portfolio"). The objective of the Domestic Fixed Income Portfolio is to provide a positive rate of return and to reduce the overall volatility of the Fund's total investment portfolio. Any significant deviation from the Investment Manager's style of investment, as set forth in its contract with the Board, will require written approval from the Board.
- 2 Each Investment Manager is expected to earn the highest rate of return consistent with the risk tolerance, guidelines, and performance criteria established by the Board.
- 3 Passive Portfolio allocations (if any) are expected to match the return and risk profile (as measured by the standard deviation) of the relevant benchmark.

### **Investment Guidelines**

1. Obligations of the U.S. Government or U.S. Government agencies may be held in any amounts.
2. The original issue size of the securities selected by Investment Managers should be such to afford a high degree of marketability.
3. Corporate bonds that are obligations of U.S. corporations shall be diversified by issuer type, such as industry, utility, financial or telephone issues. No more than 5% of the Domestic Fixed Income Portfolio managed by the Investment Manager shall be invested in the obligations of any one corporate issuer.
4. No more than 5% of an Investment Manager's portfolio shall be invested in convertible securities or preferred stocks.
5. The Domestic Fixed Income Portfolio Investment Managers are not authorized to purchase or hold securities denominated in a foreign currency.
6. Securities must be rated at least "investment grade," or its equivalent, by at least two Nationally Recognized Statistical Rating Organizations (a "NRSRO") at the time of purchase.
7. Issues subsequently downgraded to "below investment grade" status after purchase by any of the NRSROs will trigger the following:
  - a. Immediate notification of the Executive Director; and
  - b. A written recommendation outlining the security's "hold or disposition" strategy within 30 days.
8. The weighted average duration of an Investment Manager's Domestic Fixed Income Portfolio should not exceed 25% of the designated benchmark's duration.
9. The Domestic Fixed Income Portfolio Investment Managers are not authorized to utilize leverage.
- 6 The use of any derivative securities not defined in this section of the Sub-Policy by

Domestic Fixed Income Portfolio Investment Managers is covered under Section VII.A. (General Policies – Derivatives) of the Investment Policy.

## **E. Other Fixed Income Portfolio Guidelines**

### **Investment Philosophy**

1. Each Investment Manager is expected to manage a portfolio of securities that function as a fixed income equivalent portfolio ("Other Fixed Income Portfolio"). Any significant deviation from the Investment Manager's style of investment, as set forth in its contract with the Board, will require written approval from the Board.
2. The Other Fixed Income Portfolio may be implemented through the direct engagement of an Investment Manager and/or through a fund of funds approach. As such, the Other Fixed Income Portfolio may consist of a diverse set of strategies that are unrelated or have significantly different implementation and function within both the Fixed Income Portfolio and the overall Fund.
3. The primary emphasis of Investment Managers in the Other Fixed Income Portfolio should be to achieve positive absolute returns.

### **Investment Guidelines**

1. Investment Managers within the Other Fixed Income Portfolio will generally utilize some combination of the following securities and/or strategies:
  - a. Traditional equity and fixed income securities as well as currencies;
  - b. Short-Selling;
  - c. Futures, options, and other derivatives;
  - d. Leverage; and
  - e. Illiquid securities.
2. If Other Fixed Income Equity Portfolio strategies are accessed through a fund of funds approach, each Investment Manager will have complete discretion to determine the proper asset allocation among fund strategies within the provisions of these guidelines.
3. As a surrogate to traditional fixed income, Investment Managers should manage the portfolio in a style that is consistent with the stated investment strategy and provide low correlation to the long only equity and fixed income markets.
4. As a surrogate to traditional fixed income, unless specifically stated otherwise in an Investment Manager addendum, Investment Managers are expected to prudently diversify the portfolio across geography, industry, and size of positions.
5. Investment Managers should make all attempts to avoid all issues relating to Unrelated Business Taxable Income (UBTI).

## **F. Cash Investment Guidelines**

### **Investment Philosophy**

1. The assets of the Fund may be held in cash, or U.S. Government Securities ("Cash Portfolio"), as set forth below, pending investment in other asset portfolios. The investment of cash by an Investment Manager or the Custodian should be consistent with the cash management guidelines for the Cash Portfolio.
2. The investment in this asset class is expected, through active management, to provide safety of principal, daily liquidity, and a competitive yield by investing in U.S. Government Securities.

### **Investment Guidelines**

1. The Cash Portfolio may consist of the following:
  - a. U.S. Treasury bills, notes and bonds;
  - b. Other obligations issued by the U.S. Government, its agencies and instrumentalities;
  - c. Repurchase agreements;
  - d. Money market mutual funds subject to SEC Rule 2a-7; and
  - e. Short-term collective investment funds and registered or private investment companies investing principally in fixed income or other debt securities and which have investment guidelines consistent with those contained herein.
  - f. All investments are limited to securities and other instruments issued after July 18, 1984.
2. Repurchase Agreements within the Cash Portfolio are subject to the following credit restrictions and concentration limits:
  - a. All counterparties must have executed a written repurchase agreement.
  - b. The Board shall approve counterparties.
  - c. All repurchase transactions shall be collateralized initially at 102%, and counterparties shall be required to deliver additional collateral in the event the market value of the collateral falls below 100%.
  - d. The Investment Manager or Custodian must take possession of collateral either directly or through a third-party custodian.
  - e. The Investment Manager or Custodian may invest in repurchase agreements with counterparties approved by the Board.
3. Other Investment Restrictions and Concentration Limits:
  - a. The maximum expected average time to receipt of principal of any single security will not exceed 397 days.
  - b. The average effective duration of the Cash Portfolio will not exceed 90 days.
  - c. The Cash Portfolio shall not be invested in detached derivative transactions such as futures, options, swaps, caps, or floor contracts or agreements. This

restriction does not apply to instruments or securities that have detached derivatives embedded in them.

- d. The Cash Portfolio will not be invested in inverse floaters, dual index notes, range notes, or any other instrument if the terms of which do not make non-payment of interest in an event of default.
- e. The Cash Portfolio will not be utilized for the lending of securities.

## **G. Real Estate Manager Guidelines**

### **Investment Philosophy**

1. Each Investment Manager is expected to manage a diversified portfolio of core or value added real estate ("Real Estate Portfolio"). The majority of investments in the Real Estate Portfolio shall be 100% fee ownership of properties, *provided however*, that other transaction structures may be used, including equity joint ventures, participating mortgages, and other hybrid debt-equity arrangements. Any significant deviation from the Investment Manager's investment style, as set forth in its contract with the Board, will require written approval from the Board.
2. The Investment Manager is expected to earn the highest rate of return consistent with the risk tolerance, guidelines, and performance criteria established by the Board. It is expected that the income component will comprise the majority of the portfolio's total return.
3. Assets are expected to be held for a medium to long-term holding period, *provided however*, that an individual asset may be disposed of when it is considered to have "peaked" in value or for other reasonable portfolio management reasons.

### **Investment Guidelines**

1. The Investment Manager will broadly diversify investments in the Real Estate Portfolio according to geographic location, property type, size, and number of properties.
2. The Real Estate Portfolio shall consist mainly of the following property types: office, warehouse, retail, multi-family residential, and industrial.
  - a. Strategies considered part of the core Real Estate Portfolio shall be comprised primarily of improved properties with stabilized occupancies.
  - b. Strategies considered part of the value added Real Estate Portfolio shall be comprised primarily of properties that can be improved upon and where occupancy can be increased.
3. While there are no percentage limits with regard to property type, the Investment Manager should use prudent investment judgment, under the circumstances, with regard to diversification based on property type.
4. The base currency of the Real Estate Portfolio shall be U.S. Dollars. The cash assets of the Real Estate Portfolio may be invested in short-term fixed income investments (cash equivalents). These securities may be denominated in U.S. dollars or other major foreign currencies. Should fixed income investments exceed 10% of the total Real



Estate Portfolio for greater than a calendar quarter, the Investment Manager will notify the Board in writing.

5. The prudent use of leverage will be allowed in the Real Estate Portfolio. In general, third party leverage should not exceed 30% of the total of the core Real Estate Portfolio's gross asset value or 50% of the total of the value added Real Estate Portfolio's gross asset value.
6. Development will generally not be undertaken in the core Real Estate Portfolio. However, development will be allowed if it is ancillary to an existing investment (i.e. the expansion of an existing retail property). In addition, a limited number of new developments, not to exceed five percent (5%), may be undertaken to achieve asset portfolio construction objectives.
7. Notwithstanding anything in this Section H to the contrary, the System may invest directly in real estate, either 100% owned or through joint ventures or other co-investment vehicles, for the purpose of (i) generating return through income and capital appreciation competitive with institutional grade properties within the greater Oklahoma City market; and (ii) providing office space for the System.
8. The use of any derivative securities not defined in this section of the Sub-Policy by Core Real Estate Portfolio Investment Managers is covered under Section VII.A. (Genera/Policies – Derivatives) of the Investment Policy.

## **I. Pooled Investment Fund Guidelines**

The following guidelines shall apply to the System's investment in any pooled investment vehicles ("Pooled Investment Funds"), where the System invests in the Pooled Investment Fund on the advice of the Investment Consultant or as determined by the Board. In such cases, there will typically be an investment manager agreement, or other relationship, between the Pooled Investment Fund and an Investment Manager for the Pooled Investment Fund (a "Fund Manager"). The Fund Manager of a Pooled Investment Fund will not typically enter into an investment manager agreement with the System.

### **Investment Philosophy**

1. For purposes of these guidelines, Pooled Investment Funds may include, but are not limited to, limited partnerships, commingled funds, collective trusts, mutual funds, exchange-traded funds, and structured investment products.
2. The System may invest in Pooled Investment Funds in any asset class for a number of reasons including:
  - a. To access passive investment strategies;
  - b. To access markets or strategies with limited liquidity, specialized structures, or that represent unique investment opportunities; and
  - c. To realize cost savings, or where establishing a separate account is either not feasible or advisable from a risk perspective.
3. Each Pooled Investment Fund is expected to earn the highest possible rate of return consistent with its stated strategy. Pooled Investment Funds will be evaluated on substantially the same basis as Investment Managers. As such, when feasible, each

Pooled Investment Fund will be evaluated against the risk tolerance, guidelines, and performance criteria established by the Board.

### **Investment Guidelines**

1. Pooled Investment Funds are governed by separate documents (prospectus, offering agreement, etc.) (“Documents”), which may include investments not expressly permitted in this Investment Policy but that are consistent with the long-term objectives of the System. In the event of investment by the System into a Pooled Investment Fund, the governing Documents of the Pooled Investment Fund shall be treated as an addendum to the Investment Policy. However, the Board will generally select Pooled Investment Funds that are expected to comply within the overall aggregate Investment Policy guidelines.
2. The Board will give special consideration when evaluating investment in a Pooled Investment Fund structure that has limited liquidity and/or a “lock-up” period with no liquidity. It is also recognized these types of structures may have higher fees and demonstrate highly variable returns over short periods of time. As such, the Board shall consider special criteria including, but not limited to, the following in the evaluation of any Pooled Investment Fund in this sub-category:
  - a. The tenure, expertise and track record of the underlying Investment Manager;
  - b. The diversification potential of the Pooled Investment Fund relative to other portfolio investments;
  - c. The risk control provisions of the Pooled Investment Fund;
  - d. The liquidity provisions of the Pooled Investment Fund;
  - e. The use of leverage or other means of return enhancement by the Pooled Investment Fund; and
  - f. The fees and potential conflicts of interest associated with the Pooled Investment Fund.
3. When investing in Pooled Investment Funds that may have issues relating to Unrelated Business Taxable Income (UBTI), the System will invest in the sub-vehicle of the Pooled Investment Fund (if available) that is structured to minimize or eliminate the impact of UBTI.

### **J. Other Asset Strategy Guidelines**

Due to the expanding nature of global capital markets and the opportunity sets that they offer, the System may access other asset classes and/or strategies (“Other Asset Strategy Portfolio”) that are not specifically defined in this Investment Policy. These Other Asset Strategy Portfolios may not only often serve as surrogates for other defined asset classes but may also represent new or unique investment opportunities.

It is expected that most of the Other Asset Strategy Portfolio investments considered by the Board will fall under the Pooled Investment Fund guidelines section of this policy. However, if the System makes an investment that does not qualify as a Pooled Investment Fund and does not fit into one of the previously defined asset classes, this Investment Policy could be

expanded to include a new asset class section with a distinct investment philosophy and investment guidelines.

### **III. Investment Manager Performance Evaluation**

- A.** The Investment Consultant shall monitor the Investment Manager's performance on a monthly basis to ensure that the Investment Manager's performance is meeting or exceeding the portfolio objectives described below.
- B.** The Investment Consultant, along with the Board, shall conduct evaluations of each Investment Manager on a quarterly basis. The quarterly evaluation shall include, but not be limited to, a review of the following:
  - 1. The Investment Manager's organizational structure, process and philosophy and personnel changes to ensure the consistency of these items over time;
  - 2. The Investment Manager's performance relative to the Performance Criteria described below;
  - 3. The Investment Manager's adherence to its specific style of management (i.e. growth, value, etc.); and
  - 4. The Investment Manager's adherence to the System's Policies.
- C.** An Investment Manager who fails to meet expectations in any of the areas mentioned in paragraphs A and B above may, at the recommendation of the Investment Consultant, be placed on the Watch List. An Investment Manager who meets its objectives can still be placed on the Watch List in the event of any material change including, but not limited to:
  - 1. There is a significant change in the ownership or control of the Investment Management Firm;
  - 2. There is a significant change in the Investment Manager's process or philosophy;
  - 3. The departure from the Investment Management Firm of the portfolio manager for this strategy or other key or responsible personnel;
  - 4. Any pending litigation or SEC or other state or federal regulatory agency investigation or action; and
  - 5. Performance shortfall (return and/or risk) relative to its respective benchmark and/or peer group universe.

### **IV. Investment Manager Performance Criteria**

- A.** Investment Manager performance shall be monitored using three and five-year moving return averages and should be superior when compared to:
  - 1. A designated benchmark, which will be determined for each Investment Manager's portfolio at the time of engagement either through mutual agreement or an Investment Manager addendum to the Investment Policy.
  - 2. The median manager within a representative peer group universe.
- B.** Investment Manager performance shall be monitored using absolute and relative performance

statistics for a variety of:

1. Trailing and annual periods; and
  2. Market cycles including up markets (trough-to-peak) and down markets (peak-to-trough).
- C.** Unless specifically outlined in an Investment Manager Addendum, the volatility (risk) of an Investment Manager's portfolio is expected to be similar to the Investment Manager's designated benchmark. For non index-based benchmarks, risk should be commensurate with the return profile.