

INVESTMENT POLICY STATEMENT

for

City of St. Joseph, Missouri
Police Pension Fund
A Defined Benefit Plan

June, 1997
(Revised March, 1998)
(Revised December, 1999)

TABLE OF CONTENTS

I. INTRODUCTION -----	3
Purpose -----	3
Investment Objective -----	3
Policy Index -----	3
II. INFORMATION ABOUT THE FUND-----	2
III. RESPONSIBILITIES OF THE POLICE PENSION BOARD -----	2
IV. RESPONSIBILITIES OF THE INVESTMENT MANAGER -----	2
Fiduciary Responsibilities-----	2
Proxy Voting-----	3
V. RISK TOLERANCE -----	3
VI. ASSET ALLOCATION GUIDELINES -----	3
Asset Mix-----	3
Investment Manager Discretion -----	4
Implementation -----	4
Rebalancing Procedures -----	4
VII. PORTFOLIO CONSTRAINTS -----	4
Equity Securities -----	4
Fixed Income Securities -----	4
Time Horizon -----	5
VIII. INVESTMENT TRANSACTIONS -----	5
IX. COMMUNICATION WITH INVESTMENT MANAGER -----	5
X. PERFORMANCE EVALUATION-----	5

I. INTRODUCTION

Purpose

The Investment Policy Statement (Policy) outlines the goals and investment objectives of the City of St. Joseph Police Pension Fund (Fund) and is intended to provide the Police Pension Board of Trustees (Board), investment manager, consultants and others with guidelines for managing the Fund’s assets. The Policy identifies specific investment policies which will govern how the goals and objectives are to be achieved. The Policy:

- Describes the overall investment objective and approach for managing Fund assets,
- Establishes the desired asset allocation mix designed to achieve the Board’s investment objectives,
- Establishes a policy index for purposes of measuring and evaluating the performance of the Fund’s assets and investment manager over time.
- Establishes investment guidelines and constraints regarding permissible securities and diversification of assets,
- Defines the responsibilities of the Board and other parties responsible for the management of Fund assets.

The Policy considers the Fund’s current financial status and the Board’s philosophy regarding the investment of assets. The Policy will be reviewed and revised periodically to ensure it adequately reflects changes in demographics, financial status and capital markets.

Investment Objective

- A. To provide attractive investment returns from income and capital appreciation consistent with the moderate level of risk taken in the portfolio.
- B. To grow the value of assets to keep pace or exceed the fund’s liability growth rate, general inflation rate and policy index defined as

Policy Index

The policy index is a statistical composite that measures changes in financial markets often expressed in percentage changes from a base year, previous quarter or other comparable period. Total return on Fund assets shall be measured using the following indices:

- A. Total returns of this portfolio will be measured using the following Indices:
 - 1. Custom Index
 - S & P 500
 - Lehman Govt/Corp.Intermediate Bond Index
 - 91- Day Treasury Bills
 - 2. Lipper Equity/Income Fund Benchmark (For the Equity Componet)
 - 3. EAFE (For International Stock Component)

B. During the initial investment phase, the weights of the index components should correspond to the actual asset allocation of the portfolio.

II. INFORMATION ABOUT THE FUND

The City of St. Joseph's Police Pension Fund is a defined benefit plan established to provide retirement benefits for retirees and their beneficiaries. Membership in the Fund is mandatory for all full-time commissioned officers of the City of St. Joseph Police Department. The Fund is administered by the Police Pension Board of Trustees. The fund provides for monthly-defined benefits commencing with the attainment of 20 years of service. Benefits are computed at 40% of average monthly salary plus 2% for each full year of service beyond 20 years, not to exceed 15 additional years or 30 additional percent. Retirement benefits do not vest with the participant until attaining 20 years of service. Two-thirds of member contributions are refundable, without interest, upon termination after 5 years of service, but before vesting. Total annual contributions to the Fund are determined by actuarial valuation and are approved by the St. Joseph City Council as part of the annual budgeting process. Members are also required to make contributions to the fund in accordance with provisions of the Police Pension Plan document. Withdrawals from the Fund are usually in the form of monthly distributions to retirees and payments of administrative expenses.

III. RESPONSIBILITIES OF THE POLICE PENSION BOARD

The Fund is administered by the Board. Board members organize and operate in accordance with the Plan document within the limits provided by federal, state and local laws. The Board consists of nine (9) members including the Director of Finance, Budget Manager, City Attorney, City Clerk, two (2) active police officers, two (2) retired police officers and the Chief of Police. The Board selects from its members a chairperson, vice chairperson and secretary at the regularly scheduled July meeting. The Director of Finance serves as the Treasurer of the Fund.

Article III, Section 4 (a) of the Plan document states that "The Board shall have the power to invest assets of the Pension Fund as provided in the Investment Policy adopted by the Board." As such, the Board is responsible for defining the investment objectives and policies, subject to the overall guidelines set forth in the Policy. The Board has the responsibility to make changes in the Policy when considered appropriate and to establish procedures necessary to implement Policy provisions. The Board may also appoint managers, consultants and administrators to assist in the management of the Fund's assets.

IV. RESPONSIBILITIES OF THE INVESTMENT MANAGER

Fiduciary Responsibilities

The investment manager is expected to manage the Fund's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with applicable laws. This would include discharging responsibilities with

respect to the Fund consistent with “Prudent Man” standards, and all other fiduciary responsibility provisions and regulations.

Proxy Voting

The investment manager is responsible and empowered to exercise all rights, including voting rights, as are required through the purchase of securities, where practical. Each investment manager shall vote proxies according to their established Proxy Voting Guidelines. A copy of those guidelines, and/or summary of proxy votes shall be provided to the Board upon request.

V. RISK TOLERANCE

Investment theory and historical capital market return data suggests that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Fund is the determination of an appropriate risk tolerance. The Board has examined two important factors that affect the Fund’s risk tolerance:

Financial Ability to accept risk within the investment program and,
Willingness to accept return volatility.

The Board examined the Fund’s risk tolerance by considering several relevant factors. Positive factors that contribute to the risk tolerance is (1) the long-term nature of the pension obligations, (2) the taxing authority of the City to raise new revenues. Offsetting these positive characteristics is the potential volatility in the asset/liability ratio that may cause large, unexpected contributions to the Fund in some markets. The Board has analyzed the behavior of the Fund’s assets within different economic environments through a detailed strategic allocation modeling study and is comfortable with a moderate risk strategy. This is a goal of relatively stable returns over the longer term, with some potential of negative returns in any given year. Specifically, the risk level of the portfolio, as measured by volatility (standard deviation), should be similar to the volatility level of the policy index as defined in Article I of this Policy Statement.

VI. ASSET ALLOCATION GUIDELINES

Asset Mix

It is generally understood that the asset allocation or mix is the most important decision in terms of achieving the Boards long-term investment objectives. As such, the asset allocation mix shall be maintained as follows:

- A. Equity investments will range between a maximum of 60%, and a minimum of 40% of the total portfolio within the total equity exposure. Investments in international securities may comprise up to 10% of the total portfolio value.

- B. Fixed income investments will range between a maximum of 60% and a minimum of 40% of the total portfolio.

VI. ASSET ALLOCATION GUIDELINES(CONT...)

- C. Cash investments will range between 0% and 20%, of the total portfolio. In most economic environments, actual cash investments will range from 1% to 5% of the total portfolio.
- D. Convertible securities may represent attractive Investment alternatives. They will be considered equity investments and limited to 10% of the portfolio value.

Investment Manager Discretion

The investment manager has discretion to determine where to be within the above mix ranges. Investments outside the ranges referred to above will require the written, advance approval of the Board.

Implementation

The attainment of the 60% equity target will be a gradual process spread out over several quarters. This dollar cost averaging approach is designed to mitigate the risk of the short-term market timing.

Rebalancing Procedures

The allocation to each asset is expected to remain stable over most market cycles. The investment manager will be expected to maintain the asset allocation of their portfolio consistent with the asset allocation guidelines. Since capital appreciation, depreciation and trading activity in each individually managed portfolio can result in a deviation from the asset allocation guidelines, the aggregate asset allocation will be monitored and the Board may re-direct investments as necessary.

VII. PORTFOLIO CONSTRAINTS

Equity Securities

1. Should be sufficiently diversified with no single equity issue exceeding 5% of the cost value of the total equity portfolio.
2. Individual domestic securities will include those traded on the New York, American and NASDAQ Exchanges. No restricted stock or private placements are permitted.
3. There will be no short selling, options trading, commodity trading or investments in derivative or other highly speculative securities

Fixed Income Securities

1. Diversification: Credit exposure to any individual issuer, other than the U.S. Government, shall not exceed 10% of total fixed income portfolio assets.
2. Quality: Only “investment grade” securities will be held in the portfolio. Overall quality will average AA or better.

3. Maturity: The average maturity of the portfolio's fixed income component will not exceed 10 years. Portfolio duration will typically be equal to or less than the duration of the Lehman Government/Corporation Bond Index, and the Lehman Government/Corporate Intermediate Bond Index.

VII. PORTFOLIO CONSTRAINTS (CONT...)

4. Sector Restrictions: Holdings may be in government and agency issues, mortgage-backed securities, asset-backed securities, corporate bonds, money market instruments. There will be no investments in asset backed securities or foreign currency denominated bonds.

Time Horizon

1. This portfolio has a long term investment time horizon allowing investment in long term assets.
2. All investments will be in highly liquid, marketable securities so that distribution requests can be processed promptly and benefits paid when due.

VIII. INVESTMENT TRANSACTIONS

The investment manager's primary responsibility shall be to seek to obtain the best net price and execution for the Fund. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

IX. COMMUNICATION WITH INVESTMENT MANAGER

As a matter of course, each investment manager should keep the Board apprised of any material changes in the investment manager's outlook, investment policy, and tactics. The investment manager should meet with the Board quarterly to review and explain their portfolio's investment results. The investment manager should be available on a reasonable basis for telephone communication when needed. Any material event that affects the ownership of the investment management firm or the management of this account must be reported promptly to the Board. Specifically, the investment managers shall.

- A. Provide a written quarterly report detailing investment actions and results.
- B. Conduct personal client reviews, typically on a quarterly basis, or as often as desired by the board.
- C. Be responsible for reviewing these guidelines with the trustees at least annually to assure that they remain valid and relevant.

X. PERFORMANCE EVALUATION

The Board may, but is not required, to hire outside independent consultants to perform performance measurement for purposes of ascertaining the relative success or lack thereof, of the investment manager in achieving the desired returns referred to as the policy index under the investment objective and to determine that the investment manager has otherwise complied with the Investment Policy Statement.

X. PERFORMANCE EVALUATION (CONT...)

The Board shall, if desired, require the investment manager to provide performance reports and shall call upon the investment manager to interpret the results to the Board's satisfaction. Investment results and the ability to achieve the returns as detailed in the policy index, shall be viewed over at least a three-to five-year time horizon. The Board realizes that most investments go through cycles and therefore there will be periods of time in which the investment objectives are not met or when the investment manager fails to meet the policy index target. Recognizing the cyclicity of performance, the Board acknowledges the principle that the investment manager should be given an opportunity to make up for poor periods and that unless there are extenuating circumstances, patience will often prove appropriate when performance has been disappointing.

The investment manager shall report investment performance in terms of rate of return and changes in dollar value. The investment returns shall be compared to appropriate market indices as specified in the policy index outlined in the investment objective and such other indices as the Board and/or investment manager consider appropriate. Investment performance comparisons shall be prepared for the most recent quarter, year-to-date, prior annual and cumulative to date periods. The investment manager shall also report asset allocation in terms of dollar values and percent of total portfolio to enable the Board to ascertain compliance with the asset allocation guidelines.

Risk is measured by volatility, or standard deviation, and should be evaluated after twelve quarters of performance history have accumulated. An attribution analysis should also be performed for the separately managed accounts, to evaluate how much of the investment results are due to the investment manager's investment decisions, as compared to the effect of the financial markets. It is expected that this analysis will use the policy index as defined in the Article I of this Policy. The policy index will be the performance benchmark for evaluating both the returns achieved and the level of risk taken.

XI. APPROVAL

It is understood that this Investment Policy Statement is to be reviewed by the Board to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, fund status or investment managers.

Jim Connors
Chairperson

Date

Vincent J. Capell
Vice-Chairperson and Treasurer

Date

Paula Heyde
Secretary

Date