City of Irving
Supplemental Benefit Plan

Statement of Investment Policy,
Guidelines, and Investment Objectives

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Section 1: Introduction

1.1 General information:

The City of Irving Supplemental Benefit Plan (hereinafter the Plan or SBP) is a defined benefit pension plan under Section 401(a) of the Internal Revenue Code and be exempt from federal income taxation under Section 501(a) of the Internal Revenue Code, as amended from time to time (Article 1.03 of the plan document). This plan is governed by the Supplemental Benefit Plan Administrative Board (the Board) as provided for under the City Council resolutions and ordinances and funded by contributions from its participants, the City and investment earnings.

The purpose of this Plan is to provide eligible Employees with a Retirement, Disability, and Death Income Benefit which, when combined with the Texas Municipal Retirement System benefits and with any other benefits to which the Employee may be entitled, will provide periodic income to an Employee and his survivors during retirement or disability or after death (Article 1.02 of the plan document).

Consistent with its fiduciary responsibilities, the Administrative Board shall establish investment policies, objectives and strategies for the purpose of obtaining a satisfactory return on the Plan’s portfolio (the Fund) consistent with the principles of Title 8, Subtitle A of the Government Code. The Board has engaged the services of the Smith Barney Consulting Group to review the Plan’s current policies, asset allocation, manager structure, custody arrangement, etc. and render professional advice to the Board regarding possible changes and improvements. It is the Board’s wish to emphasize total investment return while providing for preservation of capital.

1.2 Purpose of This Document:

The purpose of this document, a revision and restatement of the earlier investment policy and guidelines of the City of Irving SBP Administrative Board, is to provide the guidelines by which the Fund’s investment decisions will be made and facilitate communication, enhance supervision, monitoring, and evaluation of the Fund’s assets. It outlines an overall philosophy specific enough to communicate the Board’s expectations, but flexible enough to allow for changing economic circumstances and the inevitable fluctuations in capital markets.

This document has been formulated based upon a wide range of data and possibilities and describes the process deemed appropriate by the Board based upon the “prudent man” rule with the goal of meeting the benefit obligations of the Plan to its participants and their beneficiaries.

1.3 Exhibits:

Exhibit A: attached, is an Executive Summary of the Fund, investment allocations and benchmarks.

Exhibit B: attached, is a Chronology of Investment Decisions
Section 2: Investment Objectives

The overall investment objectives of the Fund are:

1. To achieve a total return, net of management fees, in excess of the Fund’s actuarial rate, 6.75%.
2. To outperform the annualized return of the Fund’s composite policy benchmark net of management fees.
3. To achieve a real return of 4% over the CPI.

If the Fund’s performance does not meet these objectives over a market cycle, then the goals must be re-evaluated, the asset mix modified, Manager composition revised, or a combination of the above.

The Administrative Board of the City of Irving SBP has considered real return expectations (i.e. returns in excess of the rate of inflation) for the various asset classes. These expectations are considered reasonable given over fifty years of historical experience covering periods of varying economic conditions and investment environments, and given the belief that the United States’ capital markets will remain viable.

These expectations reflect long-term views and the Board acknowledges the possibility that such returns may not be realized over short or even intermediate time periods. The Board’s long-term, real rate of return expectations are as follows:

<table>
<thead>
<tr>
<th>Asset Class:</th>
<th>LT Real Rate of Return Expectations:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Equivalents</td>
<td>0% to 1.0%</td>
</tr>
<tr>
<td>Diversified Portfolio of Domestic and International Fixed Income Investments</td>
<td>1.0% to 3.0%</td>
</tr>
<tr>
<td>Diversified Portfolio of Domestic or Global Real Estate</td>
<td>2.0% to 6.0%</td>
</tr>
<tr>
<td>Diversified Portfolio of Domestic and International Common Stocks</td>
<td>4.0% to 8.0%</td>
</tr>
</tbody>
</table>

These guidelines represent the framework within which the investment managers (the “Managers”) operate in relation to the management of the Fund. These guidelines and objectives are the basis upon which the Managers will operate and upon which they will be evaluated.

The portfolio shall consist of investments, which, in combination, can reasonably be expected to satisfy the investment objectives of the Fund in light of its investment time horizon, risk tolerance, return objectives, and asset class allocations.
Risk management is achieved primarily through asset allocation established by the Board, thus dampening individual asset risk. Since the Board has chosen to use a multiple manager approach across multiple asset classes, the need for broad diversification within an individual manager’s allocation, while not entirely eliminated, is somewhat reduced by the broadly diversified nature of the entire Fund.

2.1 Investment Time Horizon:

These investment guidelines are based upon an investment time horizon in excess of ten years (in fact, much longer since the Fund will continue indefinitely). Therefore, interim fluctuations should be viewed with an appropriate perspective. Similarly, the Fund’s strategic asset allocation is based on this long-term investment horizon.

Short-term liquidity requirements are only those necessary to meet the obligations of the Fund, namely benefit disbursements, lump-sum distributions, and administration and management costs as deemed appropriate by the board.

2.2 Risk Tolerances:

The Administrative Board of the City of Irving SBP recognizes the difficulty of achieving the Fund’s investment objectives in light of the complexities and uncertainties of today’s capital markets. The Board also recognizes and accepts the fact that a prudent level of risk must be assumed in order to achieve the Fund’s long-term investment objectives.

In establishing the risk tolerance of the Fund, the Board has taken into account several factors influencing the Fund’s ability to withstand short and intermediate-term fluctuations in the value of the Fund’s investments. Among these are the Fund’s sound actuarial position, limited near-term liquidity requirements and balance of contributions and disbursements.

In summary, the Fund’s prospects for the future, current financial condition, and several other factors collectively suggest that the Fund can tolerate moderate interim fluctuations in market value and rates of return in order to achieve the Fund’s long-term objectives.

2.3 Performance Expectations:

The Administrative Board of the City of Irving SBP expects its money manager’s activities, investment decisions, and results to be consistent with the Fund’s policies, guidelines, goals, and objectives as reflected in this document. The Managers are expected to manage those assets in their portfolio using an investment approach that reflects their internal policies and guidelines while maintaining compliance with this document and all applicable statutes.
Section 3: Responsibilities of Parties Involved

3.1 Responsibilities of the Administrative Board and Staff:

The ultimate responsibility for oversight of the Fund rests with the fiduciaries of the Fund. The Administrative Board and staff will exercise its responsibilities as a prudent body in conformance with all applicable statutes of the City of Irving, the State of Texas and the Federal Government. The Board and its staff, as fiduciaries, must operate under an extremely high ethical standard and, therefore, must not enter into any action or transaction that would be in conflict or perceived to be in conflict with the best interests of the Fund.

With regard to the investment of the Plan’s portfolio (the Fund) the duties and responsibilities of the Administrative Board include but are not limited to:

i. ensuring that the Fund is managed effectively and prudently in compliance with all applicable laws and ordinances and the actuarial needs of the Fund;

ii. complying with Texas laws governing the Fund, specifically, the Texas Government Code Title 8, Subtitle A – Provisions Generally Applicable to Public Retirement Systems;

iii. determining an appropriate asset mix based upon capital markets expectations incorporating both historical and projected returns and the asset-liability mix of the Fund;

iv. monitoring the performance and other critical aspects of the Fund’s investment managers, actuaries, accountants, consultants, and other professionals hired to conduct the affairs of the Fund;

v. acting in good faith on a best-efforts basis to keep the appropriate parties including investment managers, consultants and custodian informed of changes in the governing statutes as necessary;

vi. establishing policies and objectives relating to the investment of the Fund’s assets and monitoring investment performance to ensure that the policies are followed and objectives are met;

vii. ascertaining the adequacy of this document, reviewing it annually or as needed, and determining any warranted changes;

viii. engaging such professional expertise as may be needed to assist in the supervision of the investment of the Fund’s assets including but not limited to investment consultants, custodians, administrators, and investment managers;

ix. discharging its duties with all the judgment, care, skill, prudence, and diligence, under circumstances then prevailing, which a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims by diversifying the investments of the Fund to minimize the risk of large loss.
3.2 Responsibilities of Investment Managers:

As deemed appropriate by the Administrative Board, they may contract for professional investment management services. In selecting, engaging and utilizing professional investment management services (the Managers), the Administrative Board will do so prudently and solely in the best interest of the Fund’s participants and beneficiaries. No members of the Administrative Board shall be liable for the acts or omissions of the investment managers, nor are they obligated to invest or otherwise manage any assets of the Fund subject to the control of the investment managers.

The duties and responsibilities of the investment managers include but are not limited to:

i. maintaining registration under the Federal Investment Advisors Act of 1940, 15 U.S.C. 80 B-1, ET seq;
ii. adhering to the policies, objectives, and guidelines as set forth in this document;
iii. exercising such investment discretion as has been authorized by contract with the Administrative Board and in compliance with the policies, objectives, and guidelines set forth in this document;
iv. complying with all applicable laws and legislation, particularly as it pertains to duties, functions, and responsibilities of a fiduciary and investment manager. Specifically, adherence to the “prudent expert” standard is required;
v. conforming with the Texas laws governing such investments for the Fund, specifically, the Texas Government Code Title 8, Subtitle A – Provisions Generally Applicable to Public Retirement Systems;
vi. standing ready at all times to explain and justify any investment or asset-related decisions to the Administrative Board, or their appointee;
vii. reporting to the Administrative Board on an as-needed basis;
viii. acknowledging in writing their recognition and acceptance of full responsibilities as a fiduciary under appropriate Federal and State laws and their intention to comply with this document;
ix. being available to meet or confer with the Board or its designated appointees, as required, to resolve any questions arising in the day-to-day operations of the Fund;
x. voting proxies. Because of the complexity of issues and the direct impact on asset values, the Board believes its investment managers are best positioned to vote proxies of the shares held in the portfolios they manage. The Board directs that the investment managers vote proxies in accordance with their own policies in the best interest of the Fund. In general, Managers should vote for issues that will enhance shareholder’s long-term value and against those issues that would decrease shareholder’s long-term value.
3.3 Responsibilities of the Investment Consultants:

Due to the complexity of the investment environment, the Board recognizes the need to engage the services of a professional investment consultant (the “Consultant”). The duties of such consultant include but are not limited to the following:

i. assisting the Board in developing investment policy guidelines including appropriate asset classes, asset allocation targets and ranges, and managing risk through diversification;

ii. performing initial due-diligence which includes providing the Board with objective information on the broad range of investment management specialists and money managers and assisting the Board in assembling a superior team of investment managers;

iii. providing ongoing due-diligence including but not limited to monitoring both the qualitative and quantitative aspects of the money managers and providing accurate and reliable performance reports on a quarterly basis, or more timely notice to the Board if the situation demands, such as a change in key personnel;

iv. assisting the Board in interpreting and understanding the performance data on the money managers and the Fund as a whole;

v. making recommendations to the Board as warranted to put a Manager on probation or terminate them for reasons including but not limited to the following: failure to consistently meet investment objectives over a reasonable period of time, a significant change in investment philosophy or process, deviation from investment guidelines, a change in key investment personnel, or failure to comply with all applicable regulations and laws including this document. A Manager may be removed from probation if they demonstrate satisfactorily to the Board that significant improvement or rectification of the problem has been accomplished;

vi. assisting the board in developing and implementing a rebalancing strategy;

vii. meeting with the Board on both a formal and informal basis as required;

viii. assisting the Board in implementing an administrative function to issue benefit payments, provide necessary tax reporting, and maintaining records as instructed by the Board;

ix. complying with all applicable laws and statutes, particularly as they pertain to the duties, functions and responsibilities of a fiduciary and investment consultant;

x. complying at all times with the Smith Barney Consulting Group Code of Ethics and the APIC Code of Ethics, both of which are incorporated by reference herein.

3.4 Responsibilities of the Custodian:

The custodian appointed by the Board has the following duties and responsibilities, among others:
i. accepting possession of the investment securities for safekeeping, collecting income from the investments, collecting principal of called, matured or sold securities, and providing appropriate and meaningful periodic statements of the accounts. In addition, the Custodian will sweep free credit balances into an appropriate money market fund as directed in writing by the Board;

ii. settling trades as they occur;

iii. receiving contributions and making disbursements by check or wired funds as directed in writing by the board or its designee;

iv. being available as necessary to confer with the Board, and to answer any operational questions as they arise;

v. complying with all applicable laws and statutes, particularly as they pertain to the duties, functions and responsibilities of a fiduciary and a firm contracted for custodial services.
Section 4: Asset Allocation and Rebalancing

4.1 Asset Allocation Constraints:

The Board of the City of Irving SBP understands that the Fund’s return, risk, and liquidity are in large part determined by the asset mix. The Board has selected the strategic asset allocation as outlined in Exhibit A based upon the Fund’s investment time horizon, risk tolerance, performance expectations, asset class preferences, and long-term real rate of return expectations. The asset allocation is designed to achieve the long-term required return objectives of the Fund.

4.2 Rebalancing Procedures:

The allocation mix outlined above is based upon market value and, consequently, the Fund’s Consultant is expected to monitor the portfolio based on this valuation. Neither the upper nor the lower limits of the asset allocations are intended to require portfolio activity for the sole purpose of complying with the guidelines. However, deviation from these guidelines, when they occur, will be discussion items at the meetings between the Administrative Board and the Consultant and or Managers.

The Board of the City of Irving SBP recognizes that during times of transition, (for example when a new Manager is hired), that the Fund’s actual allocation might vary temporarily from the target range outlined above. It is expected, however, that the actual allocation will be brought back into line as soon as is prudently possible given the practical considerations unique to that particular set of circumstances.

The Board also recognizes that relative asset class and Manager performance, as well as significant moves in the capital markets, can and will lead to movements in asset allocation away from the targeted ranges. Deviations outside the upper or lower limits (which generally range from ±10% to ±20% of the targeted allocations) for these reasons should be corrected as soon as prudently possible. Normal cash flows into or out of the portfolio will be managed as much as is practical and prudent to maintain targeted allocations. Allocation will be monitored on a quarterly basis and more often if necessary.

If the cash flows of the Fund are inadequate to maintain targeted allocations, the Board will instruct the Consultant, Managers, and the Custodian in writing to effect transactions and redeployment of funds as needed to bring the allocation within the guidelines above.

4.3 Significant Portfolio Cashflows:

Should a situation where significant, unusually large cash in- or outflows arise, the Board will inform the Consultant, the Custodian, and the Managers as necessary as soon as practical of anticipated additions to or withdrawals from their portfolio. The Consultant, in consultation with the Board, will determine the most appropriate utilization for the cash additions within the established guidelines and will similarly determine the most appropriate manner in which to raise cash for withdrawals.
Section 5: Investment Guidelines

Each money manager hired by the City of Irving SBP must adhere to the appropriate guidelines that follow. These guidelines for each major asset class serve as a framework for the money managers to work within to achieve the Fund’s investment objectives while maintaining an acceptable level of risk. These guidelines are specifically designed to minimize interference with the money manager’s efforts to attain overall objectives and to minimize the risk of excluding them from appropriate opportunities in compliance with this document. Should a money manager request a deviation from the following guidelines, the Board may choose to allow it, and this decision will be transmitted to the Manager in writing. Furthermore, these investment guidelines do not apply to mutual funds and exchange-traded funds (ETFs). Investments by mutual funds and ETFs are governed by the terms and conditions of their prospectuses and specific shareholder agreements.

If for any reason a security is purchased by any Manager outside of these guidelines, it must be sold. Following Administrative Board notification the investment manager is given discretion to sell at anytime within a thirty-day period. If a security is disposed of as a result of an original purchase that was made outside of the guidelines of the Fund, then the Fund is to be made whole by the Manager. (Whole is defined as the original book value of the non-complying investment(s) plus the greater of either the holding period return on the non-complying security(ies) or the return of the primary benchmark for that specific managed account during the same holding period.)

5.1 Prohibited Investments:

The following securities and transactions are prohibited unless the money manager has received prior, written Board authorization:

i. Letter stock, restricted stock, stock in non-public corporations, private placements, and any other unregistered securities including fixed income securities or any securities acquired upon conversion of the above with the sole exception of Rule 144a fixed income securities trading with registration rights. “Restricted Securities” are securities that have not been registered under the Securities Act of 1933 and as a result are subject to restrictions on resale.

ii. The purchase of securities on margin, or the lending, pledging, or hypothecating of securities (except when investing in mutual funds).

iii. Short sales, (except where permitted in Section 5.6.x “Alternative Investments”)

iv. Participation on a joint and several basis in any securities trading account.

v. Investment in companies for the purpose of exercising control of management.

vi. Concentration of investments in a particular industry inasmuch as the maximum commitment to an industry may not exceed 25% of the total value of the Fund’s portfolio. This is not intended to restrict the concentration of fixed income securities in any given sector (such as
corporate bonds, asset-backed securities, mortgage-backed securities, etc.) but to limit the concentration within each sector to 25% in any one industry.

vii. The purchase or sale of options or commodities, commodity contracts, mineral, oil, gas or other mineral exploration or development programs. However, the Fund may purchase the securities of companies engaged in the exploration, development, production, refining, transportation and marketing of oil, gas or other minerals.

viii. The above referenced list of Prohibited Investments does not apply to Mutual Fund Investments and ETFs. Mutual Fund Investments and ETFs are restricted by the terms and conditions of their Prospectus and specific shareholder agreements.

5.2 Domestic Equities:

These guidelines for equity Managers are intended to be general in nature, and to outline only broad constraints, allowing the Managers broad discretion to manage their portfolios according to their own internal policies.

i. Equity holdings in any one company should not exceed 5% of the market value of the entire Fund.

ii. The Managers should not invest more than 25% of the value of the common stock portfolio in the securities of companies principally engaged in the same industry.

iii. Equity holdings shall emphasize quality in security selection and be restricted to readily marketable securities of corporations actively traded on the major exchanges or listed over-the-counter.

iv. The money managers shall have the discretion to invest a portion of the assets under their supervision in cash reserves when they deem appropriate. However, the Managers will be evaluated against their benchmarks and their peer group based on the total funds of the portfolio under their direct management.

5.3 Domestic Fixed Income:

These guidelines for fixed income managers are intended to be general in nature, and to outline only broad constraints, allowing the Managers broad discretion to manage their portfolios according to their own internal policies.

i. All individual fixed income securities held for the Fund shall, at a minimum, be of investment grade at the time of purchase. The fixed income account managed by any manager shall maintain a weighted average credit rating that falls within the “A” category or better, as determined by the major credit rating agencies at all times. Mutual funds and ETFs may purchase non-investment grade securities including high yield, non-dollar, and emerging market securities. U.S. Treasury and U.S. government agency securities, while unrated, are qualified for inclusion in the Fund’s portfolio.
ii. Managers shall not invest more than 5% of the Fund’s value in the issues of any one issuer, with the sole exception of the U.S. Government, its agencies, or instrumentalities.

iii. All fixed income securities held for the Fund shall be expected, under normal market conditions, to be easily liquidated without severe markdowns when the transaction is not a forced liquidation.

iv. No funds shall be invested in private mortgages.

v. Short-term investments, including short-term investment funds (STIF’s) and money market funds shall be rated A-1, P-1 or comparable.

vi. Yankee bonds and taxable municipal securities are allowable.

vii. The above referenced list of restrictions does not apply to Mutual Fund Investments and ETFs. Mutual Fund Investments and ETFs are restricted by the terms and conditions of their Prospectus and specific shareholder agreements.

5.4.1 Developed Market International Equities:

These guidelines for international equity managers are intended to be general in nature, and to outline only broad constraints, allowing the Managers broad discretion to manage their portfolios according to their own internal policies.

i. International equities will be U.S. dollar denominated. They may be ADRs of international companies or shares of international companies dually-listed and traded in the U.S. In some cases they may be shares of U.S. domiciled companies with a significant portion of their assets outside the U.S.

ii. International equity securities may be traded on recognized stock exchanges or over the counter.

iii. The managers may utilize foreign or currency related exchange traded funds.

iv. The managers may utilize rights and warrants on foreign companies.

v. Equity holdings in any one company shall not exceed 10% of the value of a Manager’s international stock portfolio.

vi. No Manager shall invest more than 40% of the value of their portfolio at market in any one country.

vii. No Manager shall invest more than 45% of the value of their portfolio at market in any one economic sector.

viii. No Manager shall invest more than 35% of the value of their portfolio at market in any one industry category.

ix. Managers shall not exceed 35% exposure of the Fund’s international portfolio in emerging markets.

x. Cash and equivalents are generally limited to no more than 10% of the portfolio with logical exceptions during start-up and transition periods.
5.4.2 Emerging Market International Equities:

These guidelines for Emerging Markets (EM) international equity managers are intended to be general in nature, and to outline only broad constraints, allowing the Managers discretion to manage their portfolios according to their own internal policies.

i. Emerging Markets equities may be U.S. dollar or non-U.S. dollar denominated, but it is the intention of the board that most securities will be U.S. dollar denominated.

ii. Emerging Markets Equities may be invested in any type of depositary receipt and securities comprising the EM Account may be traded on recognized exchanges or over the counter.

iii. Equity holdings in any one company shall not exceed 10% at the market of the value of the Emerging Markets stock portfolio.

iv. No manager shall invest more than 35% of the value of the Fund's Emerging Markets portfolio in any one industry category.

v. Managers should avoid allocations to any specific country greater than 45% of their portfolio.

5.5 Real Estate Investments:

These guidelines for real estate investments are intended to be general in nature and to outline only broad constraints, allowing the Fund latitude to invest in the real estate sector as deemed prudent by the Board.

i. The Administrative Board has determined that only real estate investments professionally managed by nationally recognized firms are appropriate for the City of Irving Supplemental Benefit Plan (SBP).

ii. Total real estate holdings at market value should not exceed 10% of the market value of the entire Fund at the time of purchase; however, the Board realizes that this percentage will not remain constant. Due to the relatively illiquid nature of certain types of private real estate investments, this percentage may be allowed to grow as high as (a percentage to be determined) of portfolio value before action is warranted by the Board. Where possible however, such as with public REIT managers, the Board deems that quarterly rebalancing is appropriate.

iii. The primary real estate investments should be “core” type investments, holding a diversified basket of properties across both property types and geographic locations. Additional real estate investments may be of the specialty type including timberland.

iv. The primary investment objective of the real estate portfolio is to generate a rate of return from investments in real estate which is greater than the U.S. real estate market net of all costs and fees over the course of a market cycle, typically five years. Secondary objectives include producing a predictable income stream, providing a
partial hedge against inflation, and participation in the growth in value of high quality real estate over time.

v. When possible, liquidity of investments is preferred over illiquidity but, in any case, a clearly defined “exit strategy” shall be enumerated in the offering.

vi. Leverage may be employed, within certain constraints, at the discretion of the real estate manager. The Board shall make the ultimate determination of whether a real estate investment vehicle is suitable for the Fund given the amount of leverage utilized by the manager in that specific real estate vehicle. In any case, such leverage will not exceed levels that would be deemed reasonable and prudent given the circumstances.

vii. It is the board’s intention that real estate holdings shall emphasize quality in selection and would normally be restricted to readily marketable properties. It is the intent of the Administrative Board that real estate investments be primarily high quality, income-producing properties with a small but meaningful equity return component. It is not the intention of the Board to invest in speculative real estate holdings.

viii. All holdings within the private real estate portfolios shall be appraised by a qualified appraiser within any one-year period. These appraisals shall be available for the Administrative Board or its Consultant as requested.

ix. The real estate managers shall have the discretion to invest a portion of the assets under their supervision in cash reserves when they deem appropriate. However, the Managers will be evaluated against their benchmarks and their peer group based on the total funds of the portfolio under their direct management.

5.6 Alternative Investments:

The Administrative Board of the City of Irving Supplemental Benefit Plan may, from time to time, employ investment managers or “funds of funds” to invest in alternative asset classes such as private equity or commodities. The purpose of such investments is to attain returns above traditional assets such as common stocks while at the same time diversifying the capital market exposure of the Fund through lower correlations with traditional asset classes. It should be understood that these investments will not, in general, fall within the guidelines of traditional asset classes which comprise the majority of the Fund. Alternative assets can have numerous risks that are not reflected in a mean-variance analytical framework.

In the selection process for alternative assets and Managers, the Board shall use a number of selection criteria to evaluate the expected return and both traditional and non-traditional risks. These criteria shall include but not be limited to the following:

i. The expected return premium over traditional asset classes required to compensate for the added risk and illiquidity.
ii. The diversification and volatility of the investment itself along with its correlation to the other assets of the Fund and its effect upon the total portfolio volatility.

iii. The prospective Manager’s tenure as a management team, expertise with this type of investment, track record, transparency, total assets under management in this strategy, potential conflicts of interest and whether or not they have a direct stake in the investment.

iv. Alignment of interest among investors and manager.

v. The Manager’s use of non-traditional investment strategies and instruments such as futures, shorting, leverage, etc.

vi. Fees at each level, carried interest and the effect on net return.

5.6.1 Private Equity:

By definition, private equity investments generally possess a higher return potential along with a commensurately higher level of risk. The objective of the Fund’s investments in private equity is to earn returns higher than those of traditional equity investments and to be adequately compensated for the additional risk assumed. Private equity may also further diversify the portfolio and reduce the Fund’s total volatility.

i. The long-term (five to ten year) expected return objective of private equity investments will be 13% (nominal) net or approximately the S&P 500 historical return plus a risk premium of 300 basis points. Due to the nature of private equity, it is to be expected that there will be significant deviations from this benchmark over shorter time periods.

ii. Total investments in private equity shall not exceed 6% of the Fund’s market value at the time of purchase.

iii. The total Fund’s private equity investments shall be diversified over sectors, vintage years, number of investments, manager, geographic locations and company life-cycle entry points.

iv. Funds-of-funds may be employed to gain access to adequate diversification within the private equity portfolio.

5.6.2 Commodities:

The primary objectives of the commodity allocation are to further diversify the Fund, to provide for some hedge against inflation, and to increase opportunities to enhance the Fund’s total return. Commodity investments can be implemented by either an active manager of commodities or a passive (index) approach or a combination of the two.

i. Investments in commodities shall not exceed 5% of the Fund’s total value.

ii. Exchange Traded Funds (ETFs) may be utilized for indexing part or all of the commodity allocation.

iii. Active investments in commodities will be made through qualified investment managers with proven, long-term superior track records.
iv. Fund of funds in managed futures may be used for this asset allocation.

v. Short sales and leverage may be employed.

vi. A part of this allocation may be made through the use of specialty equity managers whose strategy is to outperform an appropriate commodity benchmark by investing in commodity-related equities which complement and expand the components of the commodity index itself.

5.6.3 Hedge Funds, General:

Hedge fund investments are intended to provide reasonably stable returns with reduced volatility. They are to be prudently chosen with the goal of increasing overall portfolio returns while reducing portfolio volatility, especially in times of great turmoil in the capital markets. The Fund shall only use hedge fund managers who have been thoroughly researched as it regards their investment strategies, investment experience of the general partners, proper alignment of interest, operational controls and risk monitoring procedures.

i. The Fund shall only use hedge funds of proven investment managers, preferably funds-of-funds and/or proven multi-strategy hedge funds. Both unregistered and Registered Investment Companies (RICs) vehicles shall be considered as statutes allow.

ii. The Fund shall not invest more than 5% in any single hedge strategy or RIC at the time of commitment/investment. One exception is hedge funds deemed to be suitable alternatives to traditional fixed income and therefore chosen to replace part of, and be funded from, the fixed income portfolio in which the allocation may go as high as 10% maximum. (See 5.6.4 below)

iii. The underlying investments in hedge funds may often be less liquid under normal market conditions and become totally illiquid in times of stress. They shall be considered as primarily illiquid for purposes of cash flow and rebalancing.

iv. Hedge funds are controlled by their private placement memoranda and their contracts with the Fund and any side letter that may be entered into. RICs are controlled by their prospectuses. In either case, the Board acknowledges that hedge fund managers operate under broad discretionary mandates designed to create the necessary investment flexibility to implement active trading strategies, constrained only by their own internal policies as defined by their offering documents.

v. The Board has the flexibility to assign benchmarks for each hedge fund allocation appropriate to its intended strategy, risk, and return objectives. Generally, directional hedge fund strategies expected to have material exposure to the public equity markets shall be measured against the S&P 500. Multi-strategy hedge funds may be measured against the S&P 500 or the appropriate Hedge Fund Research Inc. (HFRI) Index. Hedge funds intended as a substitute for long only fixed income may be measured against either the Barclay’s Aggregate Bond Index or U.S. T-Bills plus an appropriate risk premium. (See 5.6.4 below)
5.6.4 Hedge Funds for Fixed Income:

The Board may elect to replace a portion of the fixed income portfolio with a fixed income like hedge fund to further diversify the portfolio and reduce exposure to the direction of interest rates and in such case would fund such investment from the overall fixed income allocation (see Section 5.3 Fixed Income, above). To the extent that an allocation is made to hedge funds as a substitute for fixed income under this paragraph 5.6.4, then these guidelines shall supersede those of section 5.3 Fixed Income. The criteria for making such an election shall include, but not be limited to, the following; (a) demonstrated skill and track record of the investment manager in managing fixed income and related securities; (b) depth of research in generating long/short relative value and macro trading ideas; (c) risk management capabilities and (d) a proven strategy. This strategy will be executed primarily through investments in fixed income securities and currency markets with the necessary discretion to adjust portfolio exposures to achieve stated objectives in all interest rate environments. The maximum allowed to be allocated under this section, 5.6.4, shall be 15%.

While this commitment will by definition be included in the hedge fund category for purposes of asset allocation, it shall have specific characteristics in terms of liquidity, volatility, composition, and investment objective, namely:

i. The fund will have reasonable liquidity and withdrawal penalty provisions

ii. Expected volatility, as measured on a trailing three year historical basis, should be less than the U.S. equity proxy (the S&P 500), and closer on average to the Barclays Aggregate Bond Index

iii. Portfolio composition should be primarily bonds, currencies and derivatives thereof. Expected exposure and return attribution from global equities shall be limited.

iv. The investment objective to produce consistent positive returns in all interest rate environments

v. This specific type of hedge fund shall be benchmarked against the Barclay’s Aggregate Bond Index or U.S. T-Bills plus an appropriate risk premium.
Section 6: Performance Measurement

6.1 Performance Objectives:

Investment performance (including measures of both risk and return) for the Fund in total will be reviewed at least annually by comparing it to the Fund’s composite policy benchmark outlined in Exhibit A.

This is done to determine the continued feasibility of achieving the Fund’s investment objectives, and the appropriateness of this document in that regard. It is not expected that this document will be changed frequently; in particular short-term fluctuations in the capital markets should not require the modification of this document.

6.2 Monitoring of Money Managers:

The performance of each Manager will be measured by the Fund’s investment consultant and shall be reviewed each quarter. This analysis should be taken in the context of the capital markets’ conditions prevailing during that period and in relationship to that Manager’s sector and style. The primary objectives of performance measurement are enhanced communication and understanding between the Fund and its Managers, and the comparison of actual performance against the goals established in this document.

The Board does not expect that the goals defined herein will be met in every quarter; however, the Board does expect these goals to be met over a full market cycle or a three to five year period. It is understood that there will be short-term periods during which a Manager’s performance deviates from the market indices. During periods such as this, greater emphasis will be placed on that Manager’s performance relative to its peer group, while keeping in perspective the Manager’s long-term track record. This is done to reduce the likelihood of terminating a Manager whose investment style is out of favor when that Manager may, in fact, be outperforming its peer group. It is the Board’s goal for each Manager to achieve a total return in the top 30% of a representative universe of similar managers over a full market cycle.

For each asset class within the Fund, each Manager’s performance will be compared to a primary benchmark appropriate for that Manager’s sector and style, and mutually agreed upon by the Manager and the Fund’s consultant. It is the Board’s goal that each Manager outperforms their primary benchmark over a full market cycle. Where appropriate, a Manager will also be compared against a secondary benchmark, selected by the consultant, to give the Board a broader framework to evaluate that Manager’s performance relative to its particular sector and style.

The manager-specific benchmarks for the Managers chosen by the Board of the City of Irving SBP are presented in Exhibit A.

While it is the board’s intention to fairly evaluate each Manager’s performance, both absolute and relative, over a reasonable period of time, the Board clearly retains the right to terminate a Manager for any reason including but not limited to the following:
i. failing to meet Board’s communication and reporting requirements;
ii. failing to respond promptly to the Board’s concerns;
iii. providing unacceptable justification for poor results;
iv. incurring excessive risks;
v. having significant change in process, key personnel or a change in ownership;
vi. when the Board reaches a consensus that a change of Manager would be in the best interests of the Fund, with or without cause. (This judgment by the Board is sufficient justification for termination in and of itself.);

vii. failing to comply with all applicable laws and statutes, including this document.
Section 7: Selection of Money Managers

Recognizing the vast number and broad spectrum of investment managers available, the Board of the City of Irving SBP has engaged the services of a professional investment Consultant to assist in the selection of Managers for the Fund by performing due diligence, narrowing the broad universe of managers to a more manageable group, and recommending a select set of specific managers for each asset class for the Board’s final selection. This structured approach promotes diversification across asset classes and investment styles, and promotes the longevity of manager relationships. At a minimum, managers for the Fund’s consideration must meet the following criteria:

i. be a bank, insurance company, investment management company, or investment advisor as defined by the Registered Investment Advisors Act of 1940;

ii. be registered and maintain registration under the Registered Investment Advisors Act of 1940;

iii. be registered to conduct business in the State of Texas;

iv. provide historical quarterly performance numbers on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style;

v. provide detailed information on the history of the firm, key personnel, and assets under management;

vi. the Manager must articulate clearly and in writing the investment strategy that will be followed;

vii. provide the Fund with a current Form ADV.
Section 8: Meetings and Reports

On occasion the Board of the City of Irving SBP may request a formal presentation by a manager at a scheduled board meeting. The date of the meeting will be scheduled in advance, and notification will be made in writing. Although the Board does not intend to limit the presentation by the Manager, it is requested that the following items be addressed by the Manager at a minimum:

i. economic and investment background.
ii. actual portfolio composition versus stated investment style, market sector, and methodology.
iii. a review of actual results of the Fund’s portfolio, including measures of both risk and return, under that Manager’s supervision in relation to the Manager’s short, intermediate, and long-term track record.
iv. any changes in the Manager’s style, internal policies, or investment management process.
v. any changes in personnel.
vi. proxy voting record (if applicable).
vii. a review of any guidelines contained in this document which might constrain the Manager adversely in the performance of its duties, and recommendations concerning any changes in policy which should be given consideration by the Board.
Exhibit A: Executive Summary

Current Assets (12/31/15): $50,882,311
Investment Time Horizon: Greater than ten years (perpetual)
Actuarial Return Assumption: 6.75%
Expected Portfolio Return: 8% (approximately 4%-5% over CPI)
Risk Tolerance: Moderate-conservative to moderate

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<td>MSCI Emerging Markets Net</td>
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<tr>
<td>NCREIF Property</td>
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<td>Bloomberg Commodity Index</td>
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<td>13% Fixed ROR (Private Equity)</td>
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<tr>
<td>HFRI Multi Strategy</td>
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<td>Manager Allocation</td>
<td>Sector/Style</td>
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<tr>
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<td>-------------------------</td>
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<td>WestEnd Advisors</td>
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<td>Great Lakes Advisors</td>
<td>Domestic Equity: Smid Cap</td>
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<td>Segall Bryant</td>
<td>Domestic Equity: Smid Cap</td>
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<td>Lazard Asset Management</td>
<td>International Equity: Value</td>
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<tr>
<td>WCM Investment</td>
<td>International Equity: Growth</td>
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<td>Balyasny</td>
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<td>Blackstone BX Tac Opps II Fund</td>
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<td>none</td>
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Exhibit B: Chronology of Investment Decisions

Since the Fund’s effective date, March 1, 1984, the assets have been managed by a single manager under the supervision and guidelines imposed by the Administrative Board. At a meeting of the Board on September 20, 2005, the Board adopted a new strategic asset allocation. Four new specialty managers were hired: Allegiance Capital fixed income Lehman aggregate A or better, MDT Advisors domestic equity all-cap core, LaSalle Investment Management-public REITS, and NWQ Investment Management-international equity value. The transition from the current manager and custodian to the new managers and custodian was accomplished in the fourth quarter of 2005.

At the October 18, 2005 meeting, a new Investment Policy Statement (IPS) was adopted.

On July 18, 2006 at a regular meeting of the Board, a new strategic allocation with increased exposure to international equity was presented and adopted by the Board based on the Consultant’s recommendation. International allocation increased from 10% to 16% and the domestic equity allocation was reduced proportionately.

In keeping with the higher allocation to international equity and to further diversify the portfolio, a second international equity manager with a complimentary growth style was recommended by the consultant and subsequently hired at a meeting on January 21, 2008. When implemented, the international growth manager will receive one-half the international allocation currently with the international value manager. The overall international allocation will not change at this time.

At the April 21, 2008 meeting of the Administrative Board, it was recommended that the REIT manager be terminated to be replaced by a private real estate investment. The purpose of this is to provide the diversification and returns available from private real estate and eliminate the correlation to equity of public real estate. The timing of this will be dictated by the real estate markets and the availability of a suitable private real estate investment. The Board voted to terminate the current REIT manager, LaSalle Investment Management with the proceeds going to MDT Advisers since REIT is a sub asset class of equity.

The Administrative Board, in view of the present financial turmoil, at its special board meeting on March 11, 2009 voted to revise the Investment Policy Statement and rebalancing worksheet to allow rebalancing to fixed income up to 70% of the portfolio as a defensive move. At is regular board meeting on April 20, 2009, the Administrative Board voted to move back to the normal asset allocation – 45% fixed income, 39% domestic equity and 16% international equity.

At the October 19, 2009 meeting of the Administrative Board, the investment consultant presented the results of a new asset allocation study for the plan. The Board approved a new strategic asset allocation as follows: 35% fixed income, 35% domestic stocks, 15% international stocks, 10% real estate, and 5% commodities.
At the April 19, 2010 meeting of the Administrative Board, the Board approved splitting the 5% allocation to commodities to the PowerShares Commodity Tracking Index Fund and Abbey Capital ACL Alternative Fund.

The Administrative Board at its July 19, 2010 meeting voted to replace Macquarie Allegiance Capital with Federated Investors to manage the fixed income account.

On August 16, 2010, the Administrative Board voted to invest 5% of the total fund in the CBRE Capital Partners U.S. Real Estate Debt Fund.

At the March 21, 2011 Board meeting, the Board approved a 5% allocation to hedge fund. Allocation to domestic equities is reduced by 5% from 35% to 30%.

On April 18, 2011, the Board voted to approve a 5% allocation of emerging markets on advice of the Consultant. Allocation to domestic equities is reduced by 5%, from 30% to 25%.

On July 18, 2011, the Board voted to hire Glovista Investments as the emerging markets manager based on recommendation by the investment consultant. The Board also voted to invest in Millennium Strategic Capital pending satisfactory review of agreement.

On November 21, 2011, the Board voted to approve a new asset allocation as follows: 35% fixed income, 18% domestic large cap core, 7% domestic smid core, 15% international equity, 5% emerging markets equity, 10% real estate, 5% commodities, and 5% hedge fund. The Board also voted to terminate MDT Advisers, and to hire WestEnd Advisors (large cap core), Penn Capital Management (smid core), and Segall Bryant & Hamill (smid core).

At the April 16, 2012 Board meeting, the Board voted to terminate Tradewinds NWQ. Key personnel had departed the firm and the investment consultant recommended a manager search for international value mandate.

At a special Board meeting on June 7, 2012, the Board voted to approve a 5% allocation to private equity in the updated asset allocation recommended by the investment consultant. Domestic equity is to be reduced by 5%. The new asset allocation is presented in Exhibit A. The Board also voted to invest $2 million with Cohesive Capital Partners, a multi-sponsor direct private equity fund.

On August 27, 2012 the Board voted to hire Lazard Asset International (Equity Select ADR) as recommended by the investment consultant to replace Tradewinds NWQ.

On January 21, 2013 the Board voted to invest in PIMCO Absolute Return Strategy (PARS) with a 10% allocation subject to satisfactory review of contract. Funding will come from the fixed income account.

On February 18, 2013, the Board voted to commit $250,000.00 in a CDK project. On May 10, 2013 the Board voted not to move forward with the investment with CDK.
At the April 21, 2014 board meeting, the Board voted to invest $3 million in Campus Clarion Student Housing Partners at the recommendation of the investment consultant.

On January 19, 2015, the Board voted to approve the following items:
1. To invest $2.5 million (approximately 5%) in Blackstone Tactical Opportunities II Fund, which pursues an opportunistic strategy investing across asset classes, capital structures and geographies to target attractive risk-adjusted returns.
2. To liquidate the entire position in PowerShares Commodity ETF, resulting in an increase in allocation to ACL Alternative Fund from 2.5% to 5.0%.
3. To reduce allocation to real estate from 10% to 5%.
4. To increase allocation to private equity from 5% to 10%.

At the April 20, 2015 board meeting, the Board voted to replace Penn Capital with Great Lakes Advisors for the smid cap mandate after discussion by the investment consultant on the manager search. The Board also voted to liquidate 50% of the investment in PIMCO Absolute Return Strategy due to a change in investment strategy to increase the risk level.

On July 20, 2015, the Board voted to liquidate the remaining 50% of the investment in PIMCO Absolute Return Strategy and invest all the proceeds from the liquidation in Blackstone Real Estate Income Fund.

At the October 19, 2015 board meeting, the Board voted to change the allocation to the following asset classes:
- Hedge funds: from 5% to 10%;
- US large cap core: from 14.5% to 13.5%;
- US smid core: from 5.5% to 4.5%;
- International equity: from 15% to 13%; and
- Emerging markets: from 5% to 4%.

The Board also voted to invest $2 million in Atlas Enhanced Fund, a multi-strategy hedge fund managed by Balyasny Asset Management.

On February 15, 2016, the Board voted to hire WCM Investment to replace WHV Investment for the international growth equity mandate.

At the April 18, 2016 board meeting, the Board voted to change the actuarial rate assumption from 7% to 6.75%.

On May 16, 2016, the Board voted to allocate 5% of the total portfolio to be invested in Blackstone Real Estate Debt Strategies (BREDS) and to reduce the allocation to Federated Investors Core Fixed Income from 25% to 20%.
Appendix A: Manager Acknowledgement Letter

Date

Money Manager Name

Firm

Address

City, State, Zip

Re: Acknowledgement of Receipt of Statement of Investment Policy, Guidelines, and Investment Objectives Revision 2.0, Adopted on May 16, 2016.

Dear Sir or Madam:

Please sign and return this letter to us as acknowledgement of your receipt of the Board of the City of Irving Supplemental Benefit Plan (SBP) Statement of Investment Policy, Guidelines, and Investment Objectives, Revision 2.0, dated May 16, 2016.

This signed letter also serves as your acknowledgement and agreement in writing of your fiduciary responsibility to fully comply with the Statement of Investment Policy, Guidelines, and Objectives unless a deviation is agreed upon in writing by you and the Board of the City of Irving SBP in advance of any non-complying action.

It is the intention of the Board of the City of Irving SBP to review the above named document on an annual basis to reaffirm the continued relevancy or to revise it as deemed appropriate. You will be notified in writing of any changes to the document.

Yours very truly,

Tim Sharpe, CFA, CIMA
Institutional Consulting Director

Acknowledged and agreed to by the Manager:

Signed: _____________________________

Title: ____________________________

Date: ____________________________

Please return a signed original of this letter to:
Tim Sharpe, CFA, CIMA
Institutional Consulting Director
Morgan Stanley Wealth Management
2800 Post Oak Blvd., Suite 1800
Houston, TX 77056

Cc: Ike Obi-SBP