



## **ADMINISTRATIVE RULES**

Amended and approved on March 27, 2019

## TABLE OF CONTENTS

RULE 1	RULE GENERAL PROVISIONS
1.1	Definitions
1.2	Fund Establishment
1.3	Fund Administration
1.4	Rule Amendments
RULE 2	MEMBERSHIP AND CONTRIBUTIONS
2.1	Membership
2.2	Contributions
RULE 3	MEMBER PENSION
3.1	Pension Eligibility
3.2	Credited Service
3.3	Compensation Base
3.4	Pension Calculation
3.5	Deferred Retirement Option Program (DROP)
3.6	Cost-of-Living Adjustment
RULE 4	MEMBER DISABILITY
4.1	Disability Standard
4.2	Disability General Provisions
4.3	Disability Qualification
4.4	Disability Pension
4.5	Disability Recovery
4.6	Disability Income Report
RULE 5	DEATH BENEFITS
5.1	Death of Member Before Retirement
5.2	Death of Member After Retirement
RULE 6	BENEFIT DISBURSEMENT
6.1	Compliance with Internal Revenue Code
6.2	Suspension of Payments Upon Reemployment
6.3	Payments to Minors or Persons Lacking Capacity
6.4	Court Orders

## RULE 1

### RULE GENERAL PROVISIONS

#### **1.1 Definitions**

The following words, terms, and phrases when used in these Rules shall have the meanings ascribed to them in this section except where the context clearly indicates a different meaning.

Actuarial Equivalent shall mean equality in value of the aggregate amounts expected to be paid under different forms of payment and based upon the actuarial factors and assumptions adopted by the Board.

Actuarial Equivalent Pension Benefit shall mean a benefit in lieu of a Normal Pension payable as a lump sum of not less than five percent (5%) or greater than twenty-five percent (25%) of the Actuarial Equivalent of the Member's Normal Pension and the remainder as a reduced Pension.

Actuary shall mean the technical advisor to the Fund who performs mathematical calculations of Pension benefits based upon specific procedures and assumptions and who makes periodic valuations of the assets and liabilities of the Fund and Staff Plan and any other evaluations as requested by the Board.

Beneficiary shall mean the person designated by a Member who receives, or may receive, a benefit or refund from the Fund as provided under these Rules.

Board shall mean the Board of Trustees of the Fund and of the Staff Plan.

Cash Balance Account shall mean the individual nominal account administered by the Fund and established for Group II Members in Service between July 1, 2011 and September 30, 2013 to account for overtime Member Contributions made to the Fund.

City shall mean the City of Fort Worth, Texas.

City Contributions shall mean those amounts paid to the Fund by the City as derived from Members' Earnings.

City Council shall mean the City Council of the City.

Code shall mean the comprehensive set of tax laws created by the Internal Revenue Service and set forth under Title 26 of the United States Code, as amended, and any successor thereto.

Compensation Base shall mean the average Earnings within a specified number of calendar years where a Member had the highest Earnings during his or her Service as set forth in the Ordinance.

Credited Service shall mean the length of membership in the Fund represented in years and months where a month of Credited Service accrues during each calendar month that the Member's Service totals fifteen (15) or more days or such other duration as set forth in the Ordinance. Credited Service shall accrue for Service which the Member receives compensation and shall include Service Credits as set forth within and limited by the Ordinance.

Dependent Child or Dependent Children shall mean a Member's dependent, unmarried, legitimate as legitimacy is defined by the Texas Family Code and the Texas Probate Code, or legally adopted child under

age eighteen (18) and which determination of such child's dependency shall be at the discretion of the Board whose determination shall be final and conclusive on all parties.

Dependent Parent shall mean the parent of a Member for whom the Member provides over one half of such parent's financial support. The determination of the existence and level of financial support shall be at the discretion of the Board whose determination shall be final and conclusive on all parties.

DROP shall mean the Deferred Retirement Option Program.

DROP Account shall mean the account created for a Member who has made an effective DROP Election.

DROP Election shall mean the election made by a Member to participate in DROP.

Early Pension shall mean a non-Normal Pension available to a Vested Member whose Separation of Service and commencement of Pension is on or after the Early Retirement Date.

Early Retirement Date shall mean the date a Vested Member's Pension commences that is before the Member's Normal Retirement Date and on the date or after the date the Vested Member attains age fifty (50) and where a Group II Member is at least age fifty-five (55).

Early Retirement Penalty shall mean a Pension reduction of five-twelfths percent (5/12%) multiplied by the number of months that the commencement of the Pension antedates a Member's Normal Retirement Date.

Earned Income shall mean wages, salaries, tips, commissions, monetary bonuses, professional fees or other amounts received as compensation for personal services rendered including under a deferred compensation program.

Earnings shall mean the compensation paid to a Member for Service as set forth in the Ordinance.

Earnings Cap shall mean the method of calculating the Compensation Base of Members who were not Vested before October 23, 2007 that imposes a twelve percent (12%) cap on year-over-year increases to any Earnings used to calculate a Member's Compensation Base as set forth within and limited by the Ordinance.

Executive Director shall mean the individual appointed by the Board to supervise the administrative affairs of the Fund and to carry out the operation of the Fund.

Firefighter shall mean a member of the City of Fort Worth Fire Department appointed in substantial compliance with the Texas Local Government Code, Title 5, Chapter 143 or as modified by the provisions of the City's Collective Bargaining Agreement with the Fort Worth Professional Firefighters Association IAFF Local 440 and any trainee who is employed by the City for the sole purpose of attending the City of Fort Worth Fire Department's Training Academy.

Fiscal Year shall mean the period from October 1<sup>st</sup> of one year through September 30<sup>th</sup> of the following year.

Fund or Plan shall mean the Employees' Retirement Fund of the City of Fort Worth, Texas as designated through a properly filed assumed name certificate as the "Fort Worth Employees' Retirement Fund."

Fund Employer Contributions shall mean those amounts paid by the Fund to the Staff Plan on behalf of Fund Employees and derived from a percentage of Fund Employees' earnings.

Fund Employee shall mean an employee of the Fund.

General Employee shall mean an employee hired by the City who is not a Police Officer or Firefighter.

Group I Member shall mean a General Employee hired by the City before July 1, 2011.

Group II Member shall mean a General Employee hired by the City on or after July 1, 2011.

Group III Member shall mean a Police Officer hired by the City before January 1, 2013.

Group IV Member shall mean a Police Officer hired by the City on or after January 1, 2013.

Group V Member shall mean a Firefighter hired by the City prior to January 10, 2015.

Group VI Member shall mean a Firefighter hired by the City on or after January 10, 2015.

High 3 Compensation Base shall mean a Group I Member's, Group III Member's, Group V Member's Compensation Base determined by averaging such Member's Earnings during any three (3) calendar years that the Member had the highest Earnings and subject to the Earnings Cap where applicable as set forth in the Ordinance.

High 5 Compensation Base shall mean a Member's Compensation Base determined by averaging the Member's Earnings during any five (5) calendar years that the Member had the highest Earnings as set forth in the Ordinance.

Line of Duty shall mean as a result of the performance of a Member's Service and in the course of the operation usual to a Member's Service including all operations necessary, incident or appurtenant thereto or connected therewith whether such operations are conducted at the usual place of Service or elsewhere.

Member shall mean an employee of the City who makes or has made Member Contributions to the Fund or a Fund Employee who makes or has made Member Contributions to the Staff Plan.

Member Contributions shall mean the sum of all amounts deducted from a Member's Earnings through a regular payroll process or paid by the Member to the Fund or the Staff Plan. For the purposes of these Rules, such amounts paid by the City shall be deemed "employer contributions" for the purposes provided under Section 414(h)(2) of the Code but shall remain the employee's contribution for purposes of property rights of the members under Texas law.

Military Leave shall mean active duty in the armed forces of the United States including active duty in the Army National Guard and the Air National Guard and any other category of duty designated under the Uniformed Services Employment and Reemployment Rights Act and the U.S. Code of Federal Regulations.

Net Earnings from Self-Employment shall mean the earnings from self-employment as reflected upon the Internal Revenue Form Schedule SE and its successors which schedule is attached to Internal Revenue Form 1040 and its successors.

Normal Pension shall mean the Pension available to a Vested Member who remains in Service until his or her Normal Retirement Date.

Normal Retirement Date shall mean the last day of the month in which the earlier of the following occurs: (i) the Vested Member's age and Credited Service total eighty (80) and where a Group II Member is at least age 55; or (ii) the later of either (1) the Vested Member reaches age sixty-five (65) or (2) the Member's fifth (5<sup>th</sup>) anniversary of Fund membership; or (iii) a Vested Group III or Group IV Member completes twenty-five (25) years of Service.

Notice shall mean delivery by electronic mail with confirmation of the receipt of the electronic mail, delivery by certified or personal mail, delivery by overnight mail or first class postal mail, or delivery by personal service.

Ordinance shall mean the Fort Worth Code of Ordinances, Chapter 2.5 titled "Retirement" and its amendments and successor ordinances.

Part I Credited Service shall mean Credited Service earned or purchased by a Group I Member or a Group III Member before October 1, 2013 and Credited Service earned or purchased by a Group V Member before January 10, 2015.

Part II Credited Service shall mean Credited Service earned or purchased by a Group I Member or Group III Member on or after October 1, 2013 and Credited Service earned or purchased by a Group V Member on or after January 10, 2015.

Pension shall mean a benefit for life, as provided in these Rules, payable annually in twelve (12) equal monthly installments commencing on the first day of the month following the Board's approval of the benefit and in accordance with these Rules.

Pension Office shall mean the administrative office of the Fund.

Police Officer shall mean a member of the City of Fort Worth Police Department who has acquired civil service status or has been appointed or is serving a one (1) year probationary period in substantial compliance with the Texas Local Government Code, Title 5, Chapter 143.

Regular Interest shall mean 2-year Treasury Bill rate on the last pay date of the calendar year. Regular Interest will be compounded annually. Regular Interest will not be applied to any year in which the Member is not an active employee on the last pay date of the calendar year.

Retirement shall mean a Member's withdrawal from Service where a Pension is provided thereafter.

Rules shall mean the administrative rules and any procedures or processes adopted by the Board to govern the Fund or Staff Plan including those rules regarding the administration of benefits provided by the City and from the Fund and benefits provided by the Board and from the Staff Plan.

Separation of Service shall mean complete severance as a contributing Member of the Fund by any voluntary or involuntary act or means.

Service shall mean service as an employee of the City.

Service Credits shall mean additional periods of Credited Service voluntarily purchased by a Member through additional Member Contributions.

Specified Percentage shall mean the percentage of a Member's Compensation Base that is applied during a Pension calculation pursuant to and as set forth within the Ordinance.

Spouse shall mean the lawfully married husband or wife of a Member.

Staff Plan shall mean the Fort Worth Employees' Retirement Fund Staff Retirement Plan as created by the Board for the exclusive benefit of Fund Employees.

Trustee shall mean an elected or appointed member of the Board.

Vested shall mean the accrual of rights and benefits under the Plan or Staff Plan upon the attainment of five (5) years of Credited Service or upon a Member attaining his or her retirement date. Rights and benefits shall also accrue to all Members at the time of termination of the Fund, complete discontinuance of the City's Contributions to the Fund, or any partial termination of the Fund but only to the extent that the benefits of such Members have been funded.

Vested Pension shall mean a Pension available to a Vested Member whose Separation of Service is before the Member's Normal Retirement Date and where such Pension commences on or after the Member's Normal Retirement Date.

Vested Terminated Retirement Date shall mean the last day of the month in which the earlier of the following occurs: (i) the Vested Member's age and Credited Service total eighty (80) as if the Member had remained employed by the City through such date and where a Group II Member is at least age 55; or (ii) the date the Vested Member reaches age sixty-five (65), but not prior to the fifth (5<sup>th</sup>) anniversary of the date the Member joined the Fund.

## **1.2 Fund Establishment**

- A. A retirement system for the employees of the City of Fort Worth was established by the Fort Worth City Charter and the Ordinance as the "Employees' Retirement Fund of the City of Fort Worth." This Fund was placed under the exclusive administration and management of a Board of Trustees by the Texas Revised Civil Statutes, Title 109, Article 6243i for the purpose of providing retirement benefits pursuant to the provisions of the Ordinance and these Rules.
- B. With respect to benefits from the Fund, the Board shall administer the Ordinance and the Fund shall be the successor to all rights, privileges and obligations of any repealed ordinances and there shall be no gap between those provisions establishing the Fund and any prior ordinances.
- C. The City, pursuant to its policies, programs and applicable law, shall indemnify and hold harmless the Board and its Trustees against any and all loss, damage and expense including court costs and attorney's fees resulting from or arising out of the actions or inactions of the Board and its individual Trustees in connection with the performance of their duties, provided that no such indemnification shall apply to any loss, damage or expense that is attributable to the Board's or a Trustee's gross negligence or willful misconduct.
- D. The Fund is an irrevocable trust into which all assets of the Fund shall be deposited. No part of the corpus or income of the Fund shall revert to the City or be used for, or diverted to, any purpose other than exclusively providing benefits to Members and their beneficiaries in accordance with the terms of these Rules.

### 1.3 Fund Administration

The custody and supervision of the Fund shall be vested in the Board, which has the sole and exclusive responsibility for the proper and effective administration of the Fund and the implementation of its Rules.

#### A. Fund Operation and Fund Employees

1. The Board shall conduct annual Trustee elections as per the Ordinance and may procure a professional election service provider to administer the election process.
2. The Board shall have the authority to purchase real property to include a building to house the operations of the Fund and Fund Employees and any equipment, supplies and furnishings as it determines reasonably necessary for the proper administration of the Fund including casualty insurance necessary to protect the physical property of the Fund. For the purpose of purchasing, holding or maintaining Fund property, the Board may use Fund income and/or any other funds controlled by the Board so long as the use of such funds is not prohibited by law. The Board shall also have authority to rent or lease any space within the building housing the Fund's operations to any public agency, private organization or individual.
3. The Board shall retain and compensate Fund Employees including, but not limited to, an Executive Director and any other professional and clerical employees as the Board, in its sole discretion, deems necessary for the efficient operation of the Fund. The salaries and benefits paid to all Fund Employees shall be paid from the assets of the Fund.
4. The Board shall appoint an Executive Director who shall supervise the administrative affairs of the Fund and carry out the business of the Fund as directed by the Board. The Executive Director, upon delegation from the Board, serves as a designated fiduciary of the Fund and exercises discretion in the administration of the Fund. The Executive Director shall appoint and direct all other Fund Employees as he or she deems necessary for the efficient operation of the Fund.
5. While delegated primarily to the Executive Director, the Board shall have the ultimate authority over the employment and compensation of Fund Employees. No provision of these Rules is intended to create any expectation of continued employment unless otherwise provided in a written contract that is approved by the Board.
6. The Board, by its power and under separate instrument, created and adopted a retirement plan for the exclusive benefit of Fund Employees known as the "Fort Worth Employees' Retirement Fund Staff Retirement Plan." As its named fiduciary, the Board shall manage and operate the Staff Plan in accordance with the following provisions:
  - a. The Staff Plan assets may be commingled with the Fund assets for investment purposes;
  - b. The Board retains the continuing power to amend or terminate the Staff Plan provided that no amendment shall result in a reduction of Member benefits below those benefits in effect at the time of enactment of such amendment;



- c. In the event of Staff Plan termination or partial termination or discontinuance of Fund Employer Contributions, the accrued benefits of Members shall become completely vested; and
- d. In the event of Staff Plan termination, any of its remaining assets shall revert to the Fund but at no time prior to the satisfaction of all Staff Plan liabilities shall any part of the Staff Plan principal or its income be diverted to any purposes other than the benefit of its Members and beneficiaries.

B. Board Authority

The Board shall be deemed the fiduciary of the Fund and the Staff Plan and shall discharge its responsibilities solely in the interest of Members and their beneficiaries and for the exclusive purpose of providing benefits to Members and their beneficiaries and to defray the reasonable expenses of the Fund.

1. The Board shall have the powers and authority necessary to discharge its duties hereunder including the complete discretion to construe and interpret the Ordinance, to enter into contracts, agreements and arrangements to facilitate the administration of the Fund, to pay for the costs and expenses of the business and administration of the Fund from Fund assets, grant or deny any benefit under the Plan, and delegate certain duties hereunder to any committee it may appoint or to the Executive Director. All decisions of the Board made in good faith shall be final, binding and conclusive on all parties.
2. The Board shall have the exclusive responsibility for the proper administration of the Staff Plan and shall administer it according to the Staff Plan document and/or Staff Plan Funding Policy. The Board shall be the final authority in all matters pertaining to the interpretation, application, and administration of the Staff Plan.
3. The Board shall annually select a Chairperson, a Vice-Chairperson, and a Secretary who shall each have the authority to execute all documents on behalf of the Board. The Chairperson shall have the power to call a meeting at any time necessary to carry out the business of the Fund. The Secretary shall be deemed the custodian of the Fund's records and shall have the authority to delegate day-to-day responsibilities for record maintenance to Fund Employees. The Board may appoint the Executive Director to serve as Secretary but such appointment shall not give the Executive Director any voting rights on the Board.
4. Seven (7) members of the Board shall constitute a quorum to transact any business of the Fund unless there are Trustee vacancies, in which event the quorum shall be reduced by the number of Trustee vacancies. Every matter before the Board for a vote shall require the affirmative vote of a majority of the Trustees for final passage, as such majority is reduced by any existing Trustee vacancies, except for matters requiring the affirmative majority of the entire Board under the Texas Revised Civil Statutes, Article 6243i.
5. The Board shall have authority to retain its own legal counsel, accountants, actuaries and other professional advisors to assist the Board in the performance of its duties. The Board may act without independent investigation upon the professional advice of its advisors and such advisors shall report solely to the Board and the Executive Director.
6. Consistent with the provisions of the Texas Civil Practice and Remedies Code, Title 5 the Trustees and Fund Employees shall be entitled to the sovereign and governmental

immunity thereunder and neither the Board nor any of its Trustees or Fund Employees shall have personal liability for any action taken in good faith while in the performance of his or her duties with respect to the Fund. The Board shall be authorized to purchase errors and omissions insurance using assets of the Fund for the protection of Trustees and Fund Employees while performing their duties with respect to the fund unless such performance includes intentional misrepresentation, willful misconduct, or gross negligence. If insurance policies or protections under the law are unavailable, insufficient, or otherwise not in effect, the Board may indemnify a Trustee or Fund Employee for damages caused by, and for reasonable costs and expenses incurred in the defense of, an alleged act, error or omission committed by the Trustee or Fund Employee while acting in good faith and in the performance of their duties with respect to the Fund. The Board shall not indemnify a Trustee or Fund Employee for any loss resulting from willful and malicious misconduct or gross negligence.

C. Board Duties and Responsibilities

1. The Board shall keep minutes of all of its public meetings and shall maintain a written record of any action taken by the Board.
2. The Board shall maintain those records necessary for the calculation and distribution of Fund and Staff Plan benefits, the financial accounting and reporting of Fund and Staff Plan assets, and the actuarial valuations of the Fund and Staff Plan. The Board shall maintain accurate accounts of all assets in the Fund and Staff Plan related to the following:
  - a. Member Contributions on both an individual and aggregate basis;
  - b. City Contributions and Fund Employer Contributions;
  - c. Receipts and disbursements;
  - d. Pension and other benefit payments;
  - e. Interests, dividends, gains, and losses from investments; and
  - f. Any other entries as may be required for a clear, complete financial report of the status of the Fund and Staff Plan.
3. The Board shall prepare, file and distribute reports on behalf of the Fund as may be required by law and regularly distribute a comprehensive Plan summary and periodic reports regarding the financial status of the Fund and Staff Plan.
4. The Board shall have the accounts of the Fund audited by a certified public accountant in accordance with generally accepted auditing standards at least once annually<sup>1</sup> and have the actuarial valuations, studies, and reports most recently prepared for the Fund audited by an independent actuary every five (5) years.<sup>2</sup>

---

<sup>1</sup> Fund account audit requirements are pursuant to the State of Texas Government Code Title 8, Subtitle A, Chapter 802, Subchapter B, Section 802.102 and may include commingled Staff Plan assets.

<sup>2</sup> Fund valuation and audit reporting requirements are pursuant to the State of Texas Government Code Title 8, Subtitle A, Chapter 802, Subchapter B, Section 802.1012.

5. The Board shall appoint an Actuary that meets the standards of an “enrolled actuary” as that term is defined in the Employee Retirement Income Security Act of 1974 (ERISA) and whose qualification exams are administered by the Society of Actuaries. Such Actuary shall provide an annual valuation of the Fund and the Staff Plan and serve as a technical advisor to the Board and the Executive Director. The actuarial assumptions used by the Actuary shall assume costs, liabilities, rates of interest, mortality, turnover and other reasonable factors that take into account the experience of the Fund and the reasonable expectations of its financial performance. The Board may adopt actuarial assumptions and methodologies upon the advice of its Actuary. At least thirty (30) days before the date that the Board adopts the Fund’s actuarial assumptions, the Board shall submit to the City Council the detailed report of the proposed actuarial assumptions and such report shall include the fiscal impact of the proposed actuarial assumptions to the Fund.
6. The Board shall establish a written investment policy using the advice and counsel of investment advisors as the Board deems necessary.<sup>3</sup> The investment policy shall set forth the types of securities and other investments into which the assets of the Fund are placed. The investment policy shall further set forth appropriate limitations on Fund investments including, but not limited to, anticipated rate of return, investment quality, class and/or theme of investment and acceptable risk. The Board shall have the sole authority to invest and reinvest the assets of the Fund and Staff Plan as the Board deems appropriate provided the investment is consistent with the investment policy.
7. The Board shall be authorized to retain one (1) or more asset managers for the management of property held in the Fund and the Board shall convey property of the Fund to such money managers for investment or reinvestment in accordance with the terms of these rules and the investment policy established by the Board. Any such money manager contracting with the Board for the investment of its assets shall be deemed a fiduciary of the Fund.
8. The Board shall appoint a custodial institution for the purpose of holding in trust all assets of the Fund. The custodian appointed shall have demonstrated experience in the custody of public employee retirement plan assets. The custodian shall be responsible for the performance of all banking and trust duties, as assigned by the Board. The Board shall also be authorized to engage in a program of securities lending with the custodian. The custodian shall provide a monthly report of all transactions and shall further provide online access to the Fund to permit continuous review of Fund financial transactions. Within forty-five (45) days of the end of the Fund year, the custodian shall provide an annual report summarizing all transactions for the preceding twelve-month period.

D. Individual Trustees

1. The Board shall consist of thirteen (13) Trustees selected pursuant to Texas Revised Civil Statutes, Title 109, Article 6243i, Section 5.01 and such Trustees shall be elected or appointed pursuant to the provisions of the Ordinance.

---

<sup>3</sup> The Board adopted an investment policy, attached hereto as Appendix A: “Statement of Investment Objectives and Guidelines” (last modified December 14, 2016). Such investment policy is subject to amendment at the discretion of the Board, provided that Notice of any proposed amendment is provided to the City within ten (10) days of a meeting where an amendment is proposed.

2. Each Trustee shall exercise his or her fiduciary responsibilities with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a similar character and with similar aims.
3. Each Trustee shall adhere at all times to the following statutory provisions: (i) the Texas Constitution, Article 16, Section 67 titled “State and Local Retirement Systems”; (ii) the State of Texas Government Code Title 8, Subtitle A, Chapter 802 titled “Administrative Requirements”; (iii) the Texas Trust Code, Title 9, Subtitle B, Chapter 117 titled “Uniform Prudent Investor Act”; and (iv) the Texas Trust Code, Title 9, Subtitle C, Chapter 121 titled “Employees’ Trusts” as such provisions are applicable to a governmental retirement plan.
4. All Trustees shall serve the Fund and the Staff Plan without compensation but they shall be reimbursed from the Fund for necessary expenses as authorized by the Board. The Board shall establish a uniform reimbursement procedure for Trustee and Fund Employee travel expenses.<sup>4</sup>
5. No Trustee shall be responsible, at his or her own expense, to take legal action to correct the misconduct of any other Trustee. A Trustee shall have an affirmative obligation to publicly reveal any misfeasance, malfeasance or nonfeasance by another Trustee and, upon such revelation to the Board in a public meeting, shall thereafter be relieved of further responsibility with respect to actions of another Trustee.

#### **1.4 Rule Amendments**

##### **A. Rule Amendments by Board**

1. Except as otherwise provided under state law, the Board may adopt amendments to the Rules pursuant to the Texas Revised Civil Statutes, Title 109, Article 6243i, Section 5.06 if:
  - a. An analysis of the fiscal impact of the proposed amendment is performed and the Fund’s Actuary determines that the amendment will not negatively impact the fiscal soundness of the Fund;
  - b. The proposed amendment is placed on the agenda for at least two (2) consecutive meetings of the Board that are not less than thirty (30) days apart for the purpose of giving participating Members an opportunity to comment on the proposed amendments through board representation; and
  - c. The proposed amendment is approved by a majority vote of the full membership of the Board.

An amendment adopted in accordance with this Rule 1.4(A) becomes effective immediately unless otherwise provided by the Rule amendment.

---

<sup>4</sup> The Board adopted a travel reimbursement policy, attached hereto as Appendix B: “Board Travel Policy” (last modified September 21, 2011). The Board Travel Policy is subject to amendment at the discretion of the Board.

2. Pursuant to the Texas Revised Civil Statutes, Title 109, Article 6243i, Section 5.10, the Board may adopt routine, emergency, or statutorily required amendments to the Rules as either proposed by the Board or as required by federal or state law if, by unanimous vote of the Trustees present and voting, the Board agrees that the proposed amendment is an emergency, routine, or statutorily required amendment and further approves the proposed amendment. Any approved routine, emergency, or statutorily required amendment to the Rules shall automatically be placed on the agenda for the next regular meeting of the Board and shall be subject to review, amendment, or repeal at such meeting.

B. Rule Amendments by City Council

In the event of a fiscal emergency of the City that requires an amendment to these Rules governing City Contributions, the City Council may amend these Rules to address such emergency if the City Council:

1. Determines that an emergency exists and approves the proposed amendment by the unanimous vote of all members of the City Council; and
2. Provides written Notice to the Executive Director at least five (5) business days before the date the proposed amendment is to take effect.

On the ninetieth (90<sup>th</sup>) day after the date an emergency amendment to these Rules takes effect and for each subsequent ninety (90) day period while the emergency amendment is in effect, the City Council shall determine whether the emergency continues to exist. If the City Council does not determine by a unanimous vote of its members that the fiscal emergency continues to exist, or if the City Council fails to vote on whether such emergency exists, such amendment shall automatically expire on the date the vote is taken or on the date the vote should have been taken, as applicable.

C. Rule Amendments to Plan Benefits

Consistent with the Texas Revised Civil Statutes, Title 109, Article 6243i, Part 4 no proposed amendment to the Rules that changes a benefit under the Plan may be adopted without review and approval by the City Council. Only the City Council can adopt an amendment to the Rules that reduces a benefit provided by the Fund. At least ninety (90) days before the date the City Council is scheduled to vote on an amendment to these Rules that would reduce a benefit under the Plan, the City Council must give Notice to the Board of its intention to vote on the proposed amendment.

## RULE 2

### MEMBERSHIP AND CONTRIBUTIONS

#### **2.1 Membership**

##### **A. Membership General Provisions**

1. Membership in the Fund shall be a condition of employment for all City employees who are eligible to be Members and such membership shall be pursuant to those requirements set forth under the Texas Revised Civil Statutes, Title 109, Article 6243i, Section 2.01.

##### **B. Membership Upon Returning to Service**

1. If a Group I Member's Separation of Service is before the Member becomes Vested and he or she returns to Service on or after July 1, 2011 then such Member shall be reclassified as a Group II Member even if he or she did not take a refund of Member Contributions or purchases Service Credits.
2. If a Group I Member's Separation of Service is after the Member becomes Vested and he or she takes a refund of Member Contributions and he or she returns to Service on or after July 1, 2011 then such Member shall be reclassified as a Group II Member even if he or she purchases Service Credits.
3. If a Group I Member's Separation of Service is after the Member becomes Vested, he or she does not take a refund of Member Contributions, and he or she returns to Service on or after July 1, 2011 then such Member shall remain classified as a Group I Member.
4. If a Group III Member's Separation of Service is before the Member becomes Vested and he or she returns to Service on or after January 1, 2013 then such Member shall be reclassified as a Group IV Member even if the Member did not take a refund of Member Contributions or purchases Service Credits.
5. If a Group III Member's Separation of Service is after the Member becomes Vested, he or she takes a refund of Member Contributions, and he or she returns to Service on or after January 1, 2013 then such Member shall be reclassified as a Group IV Member even if the Member purchases Service Credits.
6. If a Group III Member's Separation of Service is after the Member becomes Vested, he or she does not take a refund of Member Contributions, and he or she returns to Service on or after January 1, 2013 then such Member shall remain classified as a Group III Member.
7. If a Group V Member's Separation of Service is before the Member becomes Vested and he or she returns to Service on or after January 10, 2015 then such Member shall be reclassified as a Group VI Member even if the Member did not take a refund of Member Contributions or purchases Service Credits.
8. If a Group V Member's Separation of Service is after the Member becomes Vested, he or she takes a refund of Member Contributions, and he or she returns to Service on or after January 10, 2015 then such Member shall be reclassified as a Group VI Member even if the Member purchases Service Credits.

9. If a Group V Member's Separation of Service is after the Member becomes Vested, he or she does not take a refund of Member Contributions, and he or she returns to Service on or after January 10, 2015 then such Member shall remain classified as a Group V Member.

## 2.2 Contributions

### A. Member Contributions<sup>5</sup>

1. By accepting employment with the City, all Members shall be deemed to consent and agree to the deduction of Member Contributions from his or her compensation and at the rate established by the City.
2. Effective for all pay periods beginning on or after July 20, 2019, Member Contributions will be made to the Fund for all overtime compensation.
3. Member Contributions may be automatically increased or decreased, subject to certain annual and aggregate caps, pursuant to Section 2.5-3(c) of the Ordinance.
4. Notwithstanding any automatic increases or decreases provided for in the Ordinance, the Member Contribution rate may be adjusted at any time in accordance with the procedures of the Texas Revised Civil Statutes, Title 109, Article 6243i, Section 5.09.
5. Member Contributions shall earn Regular Interest while a Member remains in Service but shall stop accruing Regular Interest upon a Member's Separation of Service or Retirement.
6. Member Contributions related to Members reinstated following Military Leave are governed by the Uniformed Services Employment and Reemployment Rights Act.
7. A Member's forfeiture of his or her Member Contributions may not be used to increase benefits to any other Member.
8. A Member whose Separation of Service is before the Member is Vested, and upon the Member's request to the Pension Office, shall be allowed to take a refund of his or her Member Contributions plus Regular Interest thereon and such Member shall thereafter be entitled to no further rights or benefits under the Plan. To ensure accuracy, the Fund will be allowed 60 to 90 days to process refunds.
9. A Member whose Separation of Service is after the Member is Vested may elect to take a refund of his or her Member Contributions plus Regular Interest thereon before the commencement of his or her Pension and by so doing shall forfeit all rights under the Plan and thereafter be entitled to no further rights or benefits from the Fund. To ensure accuracy, the Fund will be allowed 60 to 90 days to process refunds.

---

<sup>5</sup> Note, because the Rules do not specify member contribution rates, no significant changes made to this section pursuant to the change in contributions under the Ordinance.



10. *Cash Balance Account*

Group II Members in Service between July 1, 2011 and September 30, 2013 have a separate Cash Balance Account established for them to include Member Contributions made to the Fund pursuant to overtime compensation. A Group II Member is eligible to receive the amount in his or her Cash Balance Account plus Regular Interest thereon as follows:

- a. After a Group II Member's Separation of Service and upon his or her request to the Pension Office to take a refund of his or her Member Contributions, such Member shall receive his or her Cash Balance Account plus Regular Interest thereon.
- b. A Group II Member who receives a Normal Pension shall also receive the amount in his or her Cash Balance Account plus Regular Interest thereon multiplied by two (2).
- c. A Group II Member who receives a Vested Pension shall also receive the amount in his or her Cash Balance Account plus Regular Interest thereon calculated to the Group II Member's Separation of Service multiplied by two (2). A Group II Member shall not gain interest on his or her Cash Balance Account after such Member's Separation of Service.
- d. A Group II Member who Retires and receives the amount in his or her Cash Balance Account then returns to Service before September 30, 2013 shall not begin a Cash Balance Account and shall not obtain a reinstatement of any previous Cash Balance Account.

B. City Contributions<sup>6</sup>

1. City Contributions shall be made to the Fund pursuant to the Ordinance. Members shall not have the option to receive such City Contributions directly.
2. The City shall have a continuing duty to inform the Fund of any personnel action affecting the collection and transmission of Member Contributions or City Contributions payable to the Fund.
3. City Contributions may be automatically increased or decreased, subject to certain annual and aggregate caps, pursuant to Section 2.5-3(c) of the Ordinance.
4. Notwithstanding any automatic increases or decreases provided for in the Ordinance, the City's Contribution rate or the manner of making City Contributions may be adjusted at any time in accordance with the procedures provided under the Texas Revised Civil Statutes, Title 109, Article 6243i, Section 5.07.

---

<sup>6</sup> Note, because the Rules do not specify City contribution rates, no significant changes made to this section pursuant to the change in contributions under the Ordinance.



## RULE 3

### MEMBER PENSION

#### **3.1 Pension Eligibility**

A Member shall be eligible to receive a Pension on or after the earliest of his or her Normal Retirement Date or Early Retirement Date.

#### **3.2 Credited Service**

A Member's Credited Service, as defined and limited by the Ordinance, is used to determine both his or her Retirement eligibility and his or her Pension and will consist of Part I Credited Service, Part II Credited Service, or both as applicable.

##### **A. Qualified Leave**

1. A Member's Credited Service used to calculate his or her Pension shall include the hours of accumulated civil service sick leave, sick days, and/or major medical leave earned prior to July 20, 2019 for which the Member has not received compensation (hereinafter, "Qualified Leave") and as such Qualified Leave is recorded by the City as of the Member's Separation of Service. The hours of Qualified Leave shall be converted into months of Credited Service pursuant to the provisions of the Ordinance.
2. A Group I Member's and a Group III Member's Qualified Leave that is earned before October 1, 2013 shall be added to the Member's Part I Credited Service and any Qualified Leave earned on or after October 1, 2013 and before July 20, 2019 shall be added to the Member's Part II Credited Service.
3. A Group V Member's Qualified Leave earned before January 10, 2015 shall be added to the Member's Part I Credited Service and any Qualified Leave earned on or after January 10, 2015 and before July 20, 2019 shall be added to the Member's Part II Credited Service.
4. The addition of any Qualified Leave to a Member's Credited Service shall apply toward the calculation of such Member's Pension only and not toward his or her Retirement eligibility.
5. Any accumulated sick leave and/or major medical leave earned on or after July 20, 2019 will not be used to calculate a Member's Pension or count toward his or her Retirement eligibility.

##### **B. Service Credit Purchase**

A Member may acquire additional Credited Service through the purchase of Service Credits. Such purchase may affect a Member's Retirement eligibility date and/or Pension calculation. The purchase amount shall be determined in accordance with the Ordinance and shall not exceed the amount necessary to fund the purchased benefit. A Member may purchase the following types of Service Credits subject to the procedures adopted by the Board in its complete discretion, which shall be uniform and nondiscriminatory and interpreted in a manner that is consistent with the Ordinance.

1. *Qualified Credited Service*

- a. A Member seeking to increase his or her Credited Service for purposes of Retirement eligibility may purchase qualified Credited Service which is service not otherwise credited to a Member during his or her employment with one or more of the following entities:
  - i. The United States government or any state, or any political subdivision, or any agency or instrumentality of the foregoing, or association representing employees thereof;
  - ii. A public, private, or sectarian organization that provides formal instruction as its primary function, provides elementary or secondary education through grade twelve (12), maintains a regular faculty and curriculum, and has regularly enrolled students; or
  - iii. Military duty that is not Military Leave.
- b. A Member's purchase of qualified Credited Service is subject to the procedures of the Pension Office and the following limitations:
  - i. A Member must have Earnings within the then-current calendar year to purchase qualified Credited Service;
  - ii. Qualified Credited Service purchased by a Member may only be used in calculating benefits under the terms of the Ordinance in effect at the time of the purchase of such qualified Credited Service and not under the terms of the Ordinance in effect during the period to which the service may relate or any other period prior to the time of the purchase;
  - iii. A Member must purchase a minimum of one (1) month of qualified Credited Service;
  - iv. A Member may purchase Credited Service that is equivalent to qualified employment time unless such purchase would result in the Member obtaining a retirement benefit for the same service from more than one (1) plan; and
  - v. A Member must purchase his or her qualified Credited Service as a single-sum payment.
- c. Purchase of qualified Service Credits changes the Member's eligibility date and adds to Member's Credited Service for purposes of calculating the pension benefit.

2. *Non-qualified Credited Service*

A Member's purchase of non-qualified Credited Service is subject to the procedures of the Pension Office and the following limitations:

- a. A Member must have Earnings within the then-current calendar year to purchase non-qualified Credited Service;



- b. Non-qualified Credited Service purchased by a Member may only be used in calculating benefits under the terms of the Ordinance in effect at the time of the purchase of such non-qualified Credited Service and not under the terms of the Ordinance in effect during the period to which the service may relate or any other period prior to the time of the purchase;
- c. A Member must be Vested before purchasing non-qualified Credited Service;
- d. A Member must purchase a minimum of one (1) month of non-qualified Credited Service;
- e. A Member may purchase a maximum of five (5) years of non-qualified Credited Service;
- f. A Member must purchase his or her non-qualified Credited Service as a single-sum payment; and
- g. Purchase of non-qualified Service Credits changes the Member's eligibility date and adds to the Member's Credited Service for purposes of calculating the pension benefit.

3. *Additional Credited Service at Separation of Service*

A Member seeking to increase his or her Pension may purchase additional Credited Service at Separation of Service subject to the procedures of the Pension Office and the following limitations:

- a. A Member must have Earnings within the then-current calendar year to purchase additional Credited Service at Separation of Service;
- b. Additional Credited Service at Separation of Service purchased by a Member may only be used in calculating benefits under the terms of the Ordinance in effect at the time of the purchase of such additional Credited Service at Separation of Service and not under the terms of the Ordinance in effect during the period to which the service may relate or any other period prior to the time of the purchase;
- c. A Member must be Vested before purchasing additional Credited Service at Separation of Service;
- d. A Member must purchase additional Credited Service at Separation of Service at the time of his or her Separation of Service or Retirement;
- e. A Member participating in DROP may not purchase additional Credited Service at Separation of Service;
- f. A Member must purchase a minimum of one (1) month of additional Credited Service at Separation of Service;
- g. A Member may purchase a maximum of five (5) years of additional Credited Service at Separation of Service;



- h. A Member's retirement date shall not change upon purchase of his or her additional Credited Service;
- i. A Member must purchase his or her additional Credited Service as a single-sum payment; and
- j. The purchase of additional Service Credits at Separation of Service adds to the Member's Credited Service for purposes of calculating the pension benefit.

4. *Prior Credited Service (Service Buy Back)*

A Member seeking to restore his or her Credited Service after taking a refund of Member Contributions may purchase his or her prior Credited Service by repaying the refunded Member Contributions plus the assumed rate of return in place at the time of repayment commencement and during the payback period to the repayment of the total contributions withdrawn subject to the procedures of the Pension Office and the following limitations:

- a. A Member must commence purchase of prior Credited Service within ninety (90) days of returning to Service or he or she shall waive all rights to such prior Credited Service;
- b. Prior Credited Service purchased by a Member may only be used in calculating benefits under the terms of the Ordinance in effect at the commencement of the purchase of such prior Credited Service and not under the terms of the Ordinance in effect during the period to which the service may relate or any other period prior to the time of the purchase; and
- c. A Member may purchase prior Credited Service via a single-sum payment or a payroll deduction per the Ordinance as it relates to term and interest. Any Member who elects a payroll deduction and does not complete his or her entire prior Credited Service purchase shall receive prorated Credited Service based upon the amount paid towards the purchase of his or her prior Credited Service.

5. *Military Credited Service*

A Member absent from Service while on Military Leave may earn Credited Service for Retirement eligibility purposes but shall not receive Credited Service for Pension purposes unless the Member purchases his or her military Credited Service by making contributions that the Member would have otherwise made while on Military Leave (with no interest), subject to the Ordinance, the Uniformed Services Employment and Reemployment Rights Act, the procedures of the Pension Office, and the following limitations:

- a. A Member may purchase up to five (5) years of military Credited Service but may not purchase military Credited Service in excess of the Member's Military Leave;
- b. A Member who purchases military Credited Service shall obtain only the benefits provided under the Ordinance during the period of his or her military service;
- c. A Member must complete the purchase of his or her military Credited Service after the date the Member returns from Military Leave and within the duration of three

(3) times the period of his or her Military Leave but the purchase duration shall not exceed five (5) years;

- d. Following a Member's completion of the purchase of his or her military Credited Service, the City shall make the applicable City Contributions on behalf of such Member for the relevant period of Military Leave;
- e. A Member may purchase military Credited Service via a single-sum payment or a payroll deduction that shall not exceed the applicable payback period; and
- f. A Member who elects not to purchase his or her military Credited Service shall earn Credited Service during his or her Military Leave for eligibility date purposes but shall not receive Credited Service for purposes of calculating the Pension benefit.

6. *Credited Service After Reinstatement to Service*<sup>7</sup>

A Member who was involuntarily terminated from Service and was thereafter reinstated as the direct result of an appeal or suit arising from such termination will be granted Credited Service for the period that the Member was terminated provided that the applicable Member Contributions and City Contributions are made by the City and by or on behalf of the Member for the relevant period of absence.

### 3.3 Compensation Base

A Member's Compensation Base shall be determined pursuant to the Ordinance and subject to the following:

- A. The Compensation Base for Group I, Group III, and Group V Members shall mean both the average Earnings during any three (3) calendar years that the Member had the highest Earnings (hereinafter "High 3 Compensation Base") and the average Earnings during any five (5) calendar years that the Member had the highest Earnings (hereinafter "High 5 Compensation Base"). If a Group I or a Group III Member's last day of Service is before January 1, 1999, then such Member's Compensation Base shall mean his or her High 5 Compensation Base.
- B. The Compensation Base for Group II, Group IV, and Group VI Members shall mean his or her High 5 Compensation Base.
- C. For Compensation Base purposes, any Earnings with respect to Part II Credited Service shall not include overtime except such overtime as set forth within the Ordinance.
- D. If a Member has less than the applicable number of calendar years of Earnings, the Pension Office shall determine the Member's Compensation Base by using uniform, non-discriminatory procedures that are consistently applied.
- E. For Compensation Base purposes, the Earnings beginning January 1, 2008 of Group I, Group III, and Group V Members who were not Vested as of October 23, 2007 shall be subject to the Earnings

---

<sup>7</sup> Didn't see this addressed in the Rules otherwise and was a new addition to the Ordinance.

Cap and the Pension Office shall determine the calendar years in which such Members had the highest Earnings.

- F. For Compensation Base purposes, any Earnings paid to a Member for any prior time period, whether awarded by a court, administrative body or settlement agreement, shall be retroactively attributed to the calendar year in which the Member would have otherwise received it pursuant to the direction of the City.
- G. For Compensation Base purposes, a Member who has made an effective DROP Election shall have his or her Compensation Base determined by using the Member's Earnings before the effective date of the DROP Election.

### **3.4 Pension Calculation**

A Member's Pension shall be calculated pursuant to the Ordinance by multiplying the Member's Credited Service by a Specified Percentage of the Member's Compensation Base. Each Group I, Group III, and Group V Member's Pension shall be calculated by adding the products of two (2) separate formulas that represent the Member's Service during his or her Part I Credited Service and his or her Part II Credited Service.

#### **A. Normal Pension**

- 1. A Group I, Group III, or Group V Member who retires on or after the Member's Normal Retirement Date shall be eligible for a Normal Pension which shall be calculated as follows:
  - a. Three percent (3.00%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service; plus
  - b. Two and fifty one-hundredths percent (2.50%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service.
- 2. A Group II, Group IV, or Group VI Member who retires on or after the Member's Normal Retirement Date shall be eligible for a Normal Pension which shall be calculated by multiplying two and fifty one-hundredths percent (2.50%) of the Member's High 5 Compensation Base by his or her Credited Service.

#### **B. Actuarial Equivalent Pension Benefit**

- 1. A Member who is eligible to receive a Normal Pension may irrevocably elect to receive an Actuarial Equivalent Pension Benefit with the consent of his or her Spouse, in advance of his or her Retirement, and subject to the Board's discretion. The Actuarial Equivalent Pension Benefit shall be payable as a lump sum of not less than five percent (5%) or greater than twenty-five percent (25%) of the Actuarial Equivalent of the Member's Pension and the remainder as a reduced Pension.
- 2. An Actuarial Equivalent Pension Benefit shall not be available with respect to a death benefit or to any Member receiving a disability Pension, Early Pension, or Vested Pension or to any Member participating in DROP, already receiving a Pension, or any Member who retires again after returning to Service.

C. Early Pension

1. A Group I, Group III, or Group V Member who retires on or after the Member's Early Retirement Date shall be eligible for an Early Pension which shall be calculated as follows:
  - a. Two and seventy-five one-hundredths percent (2.75%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service; plus
  - b. Two and twenty-five one-hundredths percent (2.25%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service; minus
  - c. The Early Retirement Penalty.
2. A Group II, Group IV, or Group VI Member who retires on or after the Member's Early Retirement Date shall be eligible for an Early Pension which shall be calculated as follows:
  - a. Two and twenty-five one-hundredths percent (2.25%) of the Member's Compensation Base multiplied by his or her Credited Service; minus
  - b. The Early Retirement Penalty.
3. A Member must file a request with the Pension Office to initiate his or her Early Pension and such Pension shall be calculated pursuant to those benefits available under the Ordinance and in effect at the time of the Member's Pension commencement and not the Member's Separation of Service.

D. Vested Pension

1. A Vested Group I, Group III, or Group V Member whose Separation of Service is more than one (1) month before the Member's Normal Retirement Date shall be eligible for a Vested Pension upon the Member's Vested Terminated Retirement Date. Such Vested Pension shall be calculated as follows:
  - a. Three percent (3.00%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service; plus
  - b. Two and fifty one-hundredths percent (2.50%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service.
2. A Vested Group II, Group IV, or Group VI Member whose Separation of Service is more than one (1) month before the Member's Normal Retirement Date shall be eligible for a Vested Pension upon the Member's Vested Terminated Retirement Date. Such Vested Pension shall be calculated by multiplying two and fifty one-hundredths percent (2.50%) of the Member's Compensation Base by his or her Credited Service.
3. A Vested Fund Employee whose Separation of Service is more than one (1) month before his or her Normal Retirement Date shall be eligible for a Vested Pension upon the Member's Vested Terminated Retirement Date. Such Vested Pension shall be calculated by multiplying three percent (3.00%) of the Member's Compensation Base multiplied by his or her Credited Service.

4. A Member must file a request with the Pension Office to initiate his or her Vested Pension and such Pension shall be calculated pursuant to those benefits available under the Ordinance and in effect at the time of the Member's Pension commencement and not the Member's Separation of Service.

### **3.5 Deferred Retirement Option Program (DROP)**

#### **A. DROP General Provisions**

1. DROP participation defers a Member's receipt of his or her Pension until the Member's Retirement. A Member who is in Service and has attained his or her Normal Retirement Date may elect to remain in Service and participate in DROP.
2. DROP shall be administered in accordance with these Rules and any procedures that are adopted and amended by the Board in its complete discretion and interpreted in a manner consistent with the provisions of the Ordinance.
3. A Member who elects to participate in DROP shall not be eligible to purchase Service Credits.
4. Whereas there is no minimum time requirement, a Member who meets one of the following criteria may continue to participate in DROP for a maximum of six (6) years: (a) the Member is participating or has participated in DROP as of July 20, 2019, and either (i) the Member's DROP has not expired as of July 20, 2019 or (ii) the Member's DROP expires prior to July 20, 2019, but the Member continues as an active employee or returns to active employment after the expiration of his or her DROP, or (b) the Member enters the DROP on or after July 20, 2019.
5. No interest shall accrue on a Member's DROP Account balance while the Member remains in Service.
6. Upon Retirement of a Member participating in DROP, any remaining balance of such Member's DROP Account shall be subject to the gains and losses at the same rate as the Fund's investment portfolio as determined at the end of each month.

#### **B. DROP Election**

1. All DROP Elections shall be made in accordance with these Rules and any procedures adopted and amended by the Board.
2. A Member shall make his or her DROP Election no earlier than sixty (60) days before his or her Normal Retirement Date and by signing the related form(s) adopted by the Board.
3. The DROP Election form(s) signed by a Member establishes the DROP benefits available to that Member.
4. A Member's DROP Election shall not become effective before his or her Normal Retirement Date.
5. No DROP Election shall be effective until approved by the Board and upon such approval shall be irrevocable so long as the Member remains in Service.



C. DROP and Pension

1. The Pension of a Member participating in DROP shall be determined using his or her Credited Service and Compensation Base as of the Member's DROP Election effective date. Credited Service or Earnings during participation in DROP shall not be included in a Member's Pension calculation.
2. At the time of Retirement, the Pension of a Member who participated in DROP shall be adjusted to include any Qualified Leave. No retroactive payments shall be made to a Member's DROP balance pursuant to such adjusted Pension.
3. A Member who elects an actuarially reduced Pension to provide for a surviving Spouse or Beneficiary at the time of his or her Retirement shall have such reduction applied to the account balance of his or her DROP Account.
4. A Member who has made a DROP Election shall not be eligible to elect an Actuarial Equivalent Pension Benefit or to receive a disability Pension. A Member who becomes disabled during his or her DROP participation may retire and elect a distribution of his or her DROP Account and commence receipt of his or her Pension.

D. DROP Account

1. A Member participating in DROP shall have his or her Pension credited to his or her DROP Account on the first day of each month until the Member's Retirement.
2. No interest shall accrue or be paid with respect to a Member's DROP Account while the Member remains in Service.
3. No withdrawals shall be made from a Member's DROP Account until after the Member's Retirement.

E. DROP and Contributions

1. Member Contributions and City Contributions shall continue to be made while a Member remains in Service and participates in DROP but no contributions will be credited to a Member's DROP Account.
2. Member Contributions or City Contributions made while the Member remains in Service will not affect the Member's Pension upon his or her Retirement.

F. DROP and Cost-of-Living Adjustments

1. If an eligible Member completes two (2) years of DROP participation, the Member's Pension at the time of his or her Retirement will be modified to include the applicable cost-of-living adjustments dating from the DROP Election effective date for which the Member would have been eligible under Rule 3.6 assuming he or she retired on the DROP Election effective date. Further, such Member will be eligible to receive the applicable cost-of-living adjustment for which he or she is otherwise eligible for under Rule 3.6 on January 1<sup>st</sup> following his or her Retirement.

2. An eligible Member who does not complete two (2) years of DROP participation will be eligible to receive only those cost-of-living adjustments to which the Member is entitled under Rule 3.6 after the date of his or her Retirement , but not for any period of his or her DROP participation.
3. If a Member is entitled to receive a cost-of-living adjustment during his or her DROP participation and such cost-of-living adjustment is payable as a 13<sup>th</sup> paycheck, the amount of such 13<sup>th</sup> paycheck will be based on the amount of the Member's Pension at the time of his or her Retirement, excluding any Qualified Leave, and the cumulative amount of all such 13<sup>th</sup> paychecks will be paid to the Member in a lump sum following his or her Retirement.

G. DROP and Member Death

If a Member dies while there is a balance in his or her DROP Account, the balance shall be paid to the Member's Spouse or, if there is no Spouse, to Member's Beneficiary or, if no Beneficiary, to the Member's estate. The eligible recipient of the Member's DROP Account shall receive the DROP Account balance as a single sum distribution. The Member's Pension shall be paid pursuant to the death benefit provisions of the Ordinance and these Rules.

H. DROP Distribution

After a Member participating in DROP Retires he or she shall commence receipt of his or her Pension and also receive the accumulated balance of his or her DROP Account. The Member may elect to receive his or her DROP Account balance via one or more of the following distribution options:

1. Lump sum payment;
2. Rollover into an eligible retirement plan in accordance with the provisions of the Code;
3. Deferred distribution where Member elects the date he or she commences receiving his or her DROP Account balance but where such commencement shall be no later than April 1<sup>st</sup> following the calendar year in which the Member attains age seventy and one-half (70½) or such other date as provided to comply with the Code;
4. Monthly payments where the Member selects the amount of such payments that shall continue until the balance of the Member's DROP Account is distributed;
5. Monthly payments where the Member selects the number of years of such payments and where the Pension Office shall calculate the monthly amount of such payments so that the balance of the Member's DROP Account is distributed within the selected years;
6. Monthly payments where the Pension Office shall calculate the dollar amount of such payments based upon the Member's DROP balance and life expectancy. Such payments shall be recalculated on an annual basis;
7. Monthly payments where the Member's DROP Account or a portion thereof is converted into an annuity and where such annuity shall be added to the Member's Pension;
8. Five substantially equal annual installment payments in accordance with the Ordinance.

I. DROP Review

The Board shall periodically review the distributions from DROP Accounts to ensure that they are actuarially neutral. If the Board determines that the DROP Account distributions are actuarially adverse to the Fund's actuarial valuation, the Board may alter the terms of DROP Account distributions on a prospective basis provided that no Member then-participating in DROP shall be affected.

**3.6 Cost-of-Living Adjustment**

A. Cost-of-Living Adjustment Eligibility

1. Eligibility to receive a periodic cost-of-living adjustment is pursuant to the provisions of the Ordinance. Members (or Beneficiaries) eligible to receive a cost-of-living adjustment must be receiving a Pension on or before September 30<sup>th</sup> of the year preceding a cost-of-living adjustment and include only certain Group I Members, Group III Members, and Group V Members as set forth in (3) below. Group II Members, Group IV Members, and Group VI Members are not eligible to receive a cost-of-living adjustment on their Pension.
2. Group I Members, Group III Members, and Group V Members may be eligible to receive a cost-of-living adjustment for the portion of his or her Pension attributable to Credited Service earned or purchased prior to July 20, 2019. No cost-of-living adjustment will be granted for the portion of a Pension attributable to Credited Service earned or purchased on or after July 20, 2019 for any Members.
3. The following groups may be eligible to receive a two-percent (2%) cost-of-living adjustment under Rule 3.6(B)(1) below, a conditional ad-hoc cost-of-living adjustment under Rule 3.6(B)(2) below, or a combination of the two:
  - a. Retired Members and Beneficiaries eligible to receive a cost-of-living adjustment and who are receiving payments or who have retired on or before July 19, 2019,
  - b. Group I Members, Group III Members, and Group V Members (and their Beneficiaries) who retire or enter DROP on or before January 1, 2021, and
  - c. Members (and their Beneficiaries) who receive a Pension for a Line of Duty disability or death.
4. Group I Members, Group III Members, and Group V Members (and their Beneficiaries) who have not retired or entered DROP as of January 1, 2021 may be eligible for a variable cost-of-living adjustment under Rule 3.6(B)(3), but will not be eligible to receive a 2% cost-of-living adjustment under Rule 3.6(B)(1) below or ad hoc cost-of-living adjustment under Rule 3.6(B)(2) below.
5. Any cost-of living adjustment that is granted shall be effective on January 1<sup>st</sup>. For eligibility of DROP participants to receive a cost-of-living adjustment, see Rule 3.5(F).

B. Cost-of-Living Adjustment Types

1. *Two Percent (2.00%) Cost-of-Living Adjustment*

On January 1<sup>st</sup> of each year, Members and Beneficiaries who are eligible pursuant to the Ordinance to receive a two-percent (2.00%) cost-of-living adjustment shall receive an annual two -percent (2.00%) addition to the portion of the Member's Pension that is eligible for such two-percent (2.00%) cost-of-living adjustment as set forth in the Ordinance, as such Pension was calculated at his or her Retirement, before any reductions pursuant to an actuarial equivalent pension and excluding any cost-of-living adjustments pursuant to Rule 3.5(F).

Any such two-percent (2.00%) cost-of-living adjustment shall be determined by using a simple interest calculation.

2. *Conditional Ad Hoc Cost-of-Living Adjustment*

On January 1<sup>st</sup> of each year, Members and Beneficiaries who are eligible pursuant to the Ordinance to receive a conditional ad hoc cost-of-living adjustment may receive an increase in the portion of the Member's Pension that is eligible for such ad-hoc cost-of-living adjustment as set forth in the Ordinance, if the Fund's Actuary certifies that the amortization period required to satisfy the unfunded liability of the Fund is as follows:

- a. Eighteen (18) years or less, after granting a four percent (4.00%) cost-of-living adjustment and ignoring any contribution increases made in conjunction with the automatic risk-sharing provision under Section 2.5-3(c) of the Ordinance, shall result in a compounded increase of four percent (4.00%);
- b. More than eighteen (18) years and less than or equal to twenty-four (24) years, after granting a three percent (3.00%) cost-of-living adjustment and ignoring any contribution increases made in conjunction with the automatic risk-sharing provision under Section 2.5-3(c) of the Ordinance, shall result in a compounded increase of three percent (3.00%);
- c. More than twenty-four years and less than or equal to twenty-eight (28) years, after granting a two percent (2.00%) cost-of-living adjustment and ignoring any contribution increases made in conjunction with the automatic risk-sharing provision under Section 2.5-3(c) of the Ordinance, shall result in a compounded increase of two percent (2.00%); or
- d. More than twenty -eight years or more shall result in no increase.<sup>8</sup>

Any such conditional ad-hoc cost-of-living adjustment shall be determined by using a compound interest calculation.

Retired Members who are receiving a conditional ad hoc cost-of-living adjustment on the portion of the Member's Pension that is eligible for such ad-hoc cost-of-living adjustment as set forth in the Ordinance will also receive the two percent (2.00%) cost-of-living adjustment on the portion of the Member's Pension that is eligible for such two-percent (2.00%) cost-of-living adjustment as set forth in the Ordinance, before any reductions

---

<sup>8</sup> Note, revisions in this Section 3.6(B)(2) made for consistency with the corresponding provisions in the Staff Plan.

pursuant to an actuarial equivalent pension, and excluding any cost-of-living adjustments pursuant to Rule 3.5(F).

3. *Variable Cost-of-Living Adjustment*

No later than April 30<sup>th</sup> of each year, the Board may grant a variable cost-of-living adjustment or a 13<sup>th</sup> paycheck for the following calendar year based on the Fund's performance for the two (2) immediately preceding years to Members and Beneficiaries who are eligible pursuant to the Ordinance to receive such variable cost-of-living adjustment or 13<sup>th</sup> paycheck, but only if both of the following conditions are met:

- a. The actuarially determined contribution ("ADC"), based on a closed 30-year funding of the Fund's unfunded liabilities, has been equal to or less than the fixed contribution (or the contribution in place before any automatic increases under Section 2.5-3(c) of the Ordinance) for the last two (2) consecutive calendar years based on both actuarial and market values of assets; and
- b. The Fund's Actuary determines that funding the full cost of the variable cost-of-living adjustment or 13<sup>th</sup> paycheck is not anticipated to cause the ADC to exceed the fixed contribution described above for the calendar year in which the variable cost-of-living adjustment or 13<sup>th</sup> paycheck will apply.

Notwithstanding the above, no variable cost-of-living adjustment or 13<sup>th</sup> paycheck may (a) exceed 4% of the eligible portion of the Member's Pension each year or (b) be made if either (i) contributions under the automatic risk-sharing provisions under Section 2.5-3(c) of the Ordinance, including any reduced-rate contributions under Section 2.5-3(c)(3), are being made in the then-current calendar year or are determined to be required for the following calendar year, or (ii) the assumed rate of return as determined by the Board is higher than the average of the assumed rates of return as reported by two (2) independent sources that have been agreed to by the City and the Board.

## RULE 4

### MEMBER DISABILITY

#### **4.1 Disability Standard**

- A. A Member of the Fund is disabled (or continues to be disabled) if, because of bodily injury, disease, or mental illness, the Member is incapacitated for life, in spite of reasonable accommodations by the City, from regularly and continuously performing the essential functions of the:
1. Trade, profession, or occupation in which the Member was employed by the City when the Member suffered the bodily injury, disease, or mental illness, and
  2. Any other position in the City which the Board determines to be reasonably comparable to the position held by the Member, taking into account the Member's education, qualifications, experience, salary, and other factors which the Board deems appropriate. A reasonably comparable position in the City does not have to be a vacant position.
- B. The term "regularly and continuously" as used in the above standard(s) shall not require that a Member be unable to perform all of the duties set forth in his or her job description.
- C. The term "essential functions" as used in the above standard shall mean those fundamental duties that must be performed by the Member holding the employment position and as set forth within various job descriptions provided by the City.

#### **4.2 Disability General Provisions**

- A. A disability must exist for at least ninety (90) consecutive days before a Member may apply for a disability Pension.
- B. A disability must not have been: (i) contracted, suffered, or incurred while the Member was engaged in, or result from the Member having engaged in, a criminal enterprise; or (ii) from habitual drunkenness or addiction to narcotics; or (iii) a self-inflicted injury; or (iv) from voluntary or involuntary military duty including the United States Merchant Marine, any of its allies or in any other foreign country.
- C. No physical or mental condition existing at the time of commencement or re-commencement of Service shall form a basis for a disability.
- D. No Credited Service shall be provided during a Service break in excess of ninety (90), consecutive days unless the Service break was caused by a sickness or accident leading to the Board's grant of a disability Pension.
- E. Any Qualified Leave shall not be converted to the Credited Service of a Member of the Fund receiving a disability Pension pursuant to an injury in the Line of Duty.
- F. To assist the Board in making disability determinations, the City shall provide the Executive Director with City job descriptions and qualifications, related salary ranges, and any other appropriate information as requested.

### **4.3 Disability Qualification**

- A. A Member shall not qualify for a disability Pension unless one (1) or more duly licensed and practicing physician(s) appointed by the Executive Director has determined that the Member is not capable of performing the essential functions of his or her employment position or other employment position which the Board determines to be reasonably comparable to the Member's position. Determination of a disability shall not be made until at least ninety (90) days after the date the Member alleges such disability commenced.
- B. If at any time the Board is in reasonable doubt as to whether a Member is disabled as defined in Rule 4.1, it may suspend such Member's disability Pension until such doubt is resolved within a reasonable time. Any disability application or Pension shall be terminated upon the Board's determination that the Member is not disabled as defined in Rule 4.1.
- C. A disability Pension shall not commence during any period that a Member receives Earnings or any wages from the City, the State of Texas or any other division of government while in Service.
- D. Falsification, misrepresentation, or omission related to any prior conditions or injuries for which a disability Pension is or has been sought, any part of the disability Pension application, or the continuation of a disability Pension shall constitute grounds for denial of a disability Pension or for revocation of any disability Pension previously granted.
- E. No disability Pension shall be granted (or continued) while the Member is in Service. However, a Member may be granted a disability Pension if the Executive Director or the Board has been informed by the City that the Member's Separation of Service is impending because of the Member's inability to perform the essential functions of his or her position. Any such disability Pension granted under this Rule shall not become effective until the month following the Member's Separation of Service.
- F. Except as otherwise provided by law, the Board may consider a Member's failure to comply with the medical recommendations (including rehabilitation therapy and treatment) as prescribed by the Member's treating physician(s) and/or the Texas Rehabilitation Commission in the Board's determination as to whether a Member qualifies for a disability Pension. To be eligible to continue receiving a disability Pension, a Member must comply with the medical recommendations (including rehabilitation therapy and treatment) as prescribed by the Member's treating physician(s), the physician(s) appointed by the Executive Director, and/or the Texas Rehabilitation Commission.
- G. The Board's determination on all matters concerning the granting, refusing, or revoking of a disability Pension shall be final and conclusive on all parties and no appeal can be made therefrom. A Member is entitled to a reasonable hearing at which the Member may appear in person, with or by a representative, or in writing before the Board makes its determination.

### **4.4 Disability Pension**

A Member who becomes disabled as defined in Rule 4.1 and is granted a disability Pension shall receive a Pension calculated pursuant to the Ordinance using the Member's Credited Service, Compensation Base, and the applicable Specified Percentage, but no disability Pension shall, at the time of commencement, exceed the Member's rate of earnings.



A. Disabled Line of Duty before Normal Retirement Date

1. A Group I, Group III, or Group V Member who becomes disabled as defined in Rule 4.1 in the Line of Duty and is granted a Pension before such Member's Normal Retirement Date shall receive a Pension calculated as follows:
  - a. Two and seventy-five one-hundredths percent (2.75%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service that would have accrued to his or her Normal Retirement Date; plus
  - b. Two and seventy-five one-hundredths percent (2.75%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service that would have accrued to his or her Normal Retirement Date.
2. A Group II, Group IV, or Group VI Member who becomes disabled as defined in Rule 4.1 in the Line of Duty and is granted a Pension before such Member's Normal Retirement Date shall receive a Pension calculated by multiplying two and twenty-five one-hundredths percent (2.25%) of such Member's Compensation Base by his or her Credited Service that would have accrued to his or her Normal Retirement Date.
3. No Pension granted pursuant to a disability in the Line of Duty shall be less than two hundred fifty dollars (\$250.00).

B. Disabled Line of Duty after Normal Retirement Date

A Member who becomes disabled as defined in Rule 4.1 in the Line of Duty and is granted a Pension after such Member's Normal Retirement Date shall receive a Pension calculated pursuant to a Normal Pension defined in Rule 3.4(A).

C. Disabled Non Duty before Vesting

A non-Vested Member who becomes disabled as defined in Rule 4.1 while not in the Line of Duty shall be entitled to take a refund of his or her Member Contributions plus Regular Interest and shall thereafter receive no further benefit from the Fund.

D. Disabled Non Duty after Vesting

1. A Vested Group I, Group III, or Group V Member who becomes disabled as defined in Rule 4.1 and is granted a Pension before such Member's Normal Retirement Date shall receive a Pension calculated as follows:
  - a. Two and seventy-five one-hundredths percent (2.75%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service; plus
  - b. Two and twenty-five one-hundredths percent (2.25%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service.
2. A Vested Group II, Group IV, or Group VI Member who becomes disabled as defined in Rule 4.1 and is granted a Pension before such Member's Normal Retirement Date shall receive a Pension calculated by multiplying two and twenty-five one-hundredths percent (2.25%) of such Member's Compensation Base by his or her Credited Service.



3. A Vested Member who becomes disabled as defined in Rule 4.1 and is granted a Pension after such Member attains his or her Normal Retirement Date shall receive a Pension calculated pursuant to a Normal Pension defined in Rule 3.4(A).
4. A Pension pursuant to a non duty disability of a Vested Member shall be calculated using the Member's Credited Service at the time of his or her disability.

#### **4.5 Disability Recovery**

- A. The Executive Director shall appoint one (1) or more physicians to conduct an annual medical examination of a Member after he or she has been granted a disability Pension, unless the Executive Director deems such examination unnecessary due to the Member's medical condition. The Board may, at any time as it deems necessary, require the examination of a Member who has been granted a disability Pension for purposes of determining whether the Member's disability is continuing pursuant to Rule 4.1. The Fund shall pay the expenses for medical examinations directed by the Executive Director or Board. To continue receiving a disability Pension, the Member shall submit to any medical examination required by the Executive Director or Board.
- B. The Board shall stop payments to a Member receiving a disability Pension upon the Board's determination that such Member is no longer disabled as defined in Rule 4.1.
- C. Should a Member return to Service following the Board's determination that he or she is no longer disabled, the Member's Credited Service upon reinstatement to Service will reflect the Credited Service to the date of his or her disability Pension including any Service Credits and the Member shall not receive Credited Service for the period that he or she received a disability Pension. However, the Member's period of disability shall be used to determine attainment of his or her Normal Retirement Date.
- D. Should a Member not return to Service following the Board's determination that he or she is no longer disabled and the Member was not vested when he or she was granted a disability Pension, then such Member shall receive a distribution of his or her Member Contributions plus Regular Interest thereon reduced by the total of disability Pension payments made to the Member and as otherwise reduced under the Ordinance. Thereafter, such Member shall have no further interest in, right to, or benefit from the Fund.
- E. Should a Member not return to Service following the Board's determination that he or she is no longer disabled and the Member was Vested when he or she was granted a disability Pension, then such Member shall receive a Vested Pension calculated using the later of the date of the Board's determination that the Member's disability does not exist or the Member's attainment of his or her Normal Retirement Date and using the Member's Credited Service on the date he or she was granted a disability Pension.

#### **4.6 Disability Income Report**

- A. A Member receiving a disability Pension that has not attained his or her Normal Retirement Date shall submit to the Executive Director, before May 1<sup>st</sup> of each year following the grant of his or her disability Pension: (i) a copy of the Member's signed income tax return filed for the preceding year including all attachments thereto; and (ii) a copy of tax returns including all attachments thereto for each of the Member's affiliated entities including, but not limited to, partnerships or corporations in which the Member or any of the Member's relatives owns any interest, including

community or separate property, and for which the Member performs any compensated or uncompensated services. At the end of the first year following the grant of a disability Pension and by May 1<sup>st</sup> of each subsequent year, a Member receiving a disability Pension shall also submit to the Executive Director an affidavit on the Executive Director's approved form swearing that the Member's Earned Income and Net Earnings from Self-Employment are fully disclosed on the provided tax returns and that such Member has not received any other compensation for services rendered nor performed any services for which the Member received no compensation except as disclosed in the affidavit, including amounts paid to affiliated entities for the benefit of such Member or to any relative of such Member. If the Internal Revenue Service has approved a Member's request for an extension to file a tax return and such tax return has not been filed by May 1<sup>st</sup> the Member shall provide the Executive Director with a copy of the extension by May 1<sup>st</sup> and a copy of the tax return with all attachments and the related affidavit within two (2) weeks after the tax return has been filed.

- B. A Member who is receiving a disability Pension and whose combined Earned Income, Net Earnings from Self-Employment, and disability Pension exceeds the annualized base hourly rate of pay that the Member would have earned during the same tax year had he or she remained in Service shall have his or her disability Pension reduced to such annualized rate of pay. In addition to a Pension reduction, the Board shall attempt to recover the cumulative excess of any disability Pension paid to the Member. In the event that a Member's disability Pension is reduced in excess of the Member's annualized rate of pay had the Member remained in Service, the Board shall return any such excess to the Member.
- C. The Board shall withhold a Member's disability Pension upon the Member's failure to submit on a timely basis the required income tax return including all attachments thereto for the previous year. If the Member subsequently provides the required tax return by the end of the calendar year in which such tax return was due the Board shall reinstate the Member's disability Pension including any previously withheld amounts without interest and subject to any other applicable provisions of these Rules. If the Member fails to provide the required tax return by the end of the calendar year in which such tax return was due the Member's disability Pension shall be terminated and the Member shall not be entitled to any amounts withheld during the period where the required tax return was not provided.
- D. For purposes of this section, any amounts paid to a Member's affiliated entity in connection with the performance of services by the Member shall constitute Earned Income, and any attempt to circumvent the limitations under these Rules on Earned Income and Net Earnings from Self-Employment through the use of affiliated entities shall be grounds for the Board to terminate the Member's disability Pension.

## RULE 5

### DEATH BENEFITS

#### **5.1 Death of Member Before Retirement**

##### **A. Death of Non Vested Member**

If a Member is not Vested on the date of his or her death, the Member's surviving Spouse, or if no surviving Spouse, the Member's Beneficiary shall be entitled to take a refund of the Member's total Member Contributions plus Regular Interest thereon and shall thereafter be entitled to no further rights or benefits under the Plan. If there is no surviving Spouse or Beneficiary, such Member Contributions shall be paid to the Member's estate.

##### **B. Death of Member in Line of Duty**

1. A Pension pursuant to the death of a Group I, Group III, or Group V Member who dies while in the Line of Duty as a result of the performance of his or her Service before such Member has attained his or her Normal Retirement Date shall be calculated as follows:
  - a. Three percent (3.00%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service that would have accrued to his or her Normal Retirement Date; plus
  - b. Three percent (3.00%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service that would have accrued to his or her Normal Retirement Date.
2. A Pension pursuant to the death of a Group II, Group IV, or Group VI Member who dies while in the Line of Duty as a result of the performance of his or her Service before such Member's Normal Retirement Date shall be calculated by multiplying two and fifty one-hundredths percent (2.50%) of the Member's Compensation Base by such Member's Credited Service that would have accrued to his or her Normal Retirement Date.
3. A Pension pursuant to the death of a Member who dies while in the Line of Duty as a result of the performance of his or her Service after such Member has attained his or her Normal Retirement Date shall be calculated as follows:
  - a. Three percent (3.00%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service that would have accrued to his or her termination; plus
  - b. Three percent (3.00%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service that would have accrued to his or her termination.
4. If a Member dies while in the Line of Duty as a result of the performance of his or her Service, the Member's surviving Spouse shall receive seventy-five percent (75%) of the Member's Pension calculated pursuant to Rule 5.1(B). If there is no surviving Spouse, then the Member's Dependent Children shall equally share seventy-five percent (75%) of such Pension. If there is no Spouse or Dependent Children, then the Member's Dependent Parent(s), qualified per the IRS financial support test, shall receive seventy-five percent

(75%) of such Pension. The Pension amount received by a Member's surviving Spouse, Dependent Children, or Dependent Parent(s) shall not be less than two hundred fifty dollars (\$250.00).

5. If a Member dies while in the Line of Duty, as a result of the performance of his or her Service, such Member's Dependent Children shall each receive one hundred dollars (\$100.00) each month unless the Dependent Children equally share seventy-five percent (75%) of the Member's Pension. Any payments to a Dependent Child shall continue until the earlier of such Dependent Child's death, marriage, or attainment of age eighteen (18).
6. Any Group II Member's surviving Spouse, Dependent Child, or Dependent Parent who receives a Pension pursuant to the Member's death in the Line of Duty and as a result of the performance of his or her Service shall also receive any balance in the Group II Member's Cash Balance Account plus Regular Interest thereon multiplied by two (2).

C. Death of Vested Member (Non Duty)

1. A Pension pursuant to a Vested Group I, Group III, or Group V Member who dies while still in Service but while not in the Line of Duty (hereafter referred to as "non duty") before such Member attains his or her Normal Retirement Date shall be calculated as follows:
  - a. Two and seventy-five one-hundredths percent (2.75%) of the Member's High 3 Compensation Base multiplied by his or her Part I Credited Service; plus
  - b. Two and twenty-five one-hundredths percent (2.25%) of the Member's High 5 Compensation Base multiplied by his or her Part II Credited Service.
2. A Pension pursuant to a Vested Group II, Group IV, or Group VI Member who dies while still in Service (non duty) before such Member attains his or her Normal Retirement Date shall be calculated by multiplying two and twenty-five one-hundredths percent (2.25%) of such Member's Compensation Base by his or her Credited Service.
3. A Pension pursuant to a Vested Member who dies while still in Service (non duty) after such Member attains his or her Normal Retirement Date shall be calculated pursuant to a Normal Pension.
4. If a Vested Member dies before his or her Retirement while still in Service (non duty) then such Member's surviving Spouse shall receive seventy-five percent (75%) of the Member's Pension calculated pursuant to this Rule. If there is no surviving Spouse, then the Member's Dependent Children shall equally share seventy-five percent (75%) of such Pension. If there is no Spouse or Dependent Children, then the Member's Dependent Parent(s) shall receive seventy-five percent (75%) of such Pension. The Pension amount received by a Member's surviving Spouse, Dependent Children, or Dependent Parent(s) shall not be less than one hundred fifty dollars (\$150.00).
5. If a Vested Member dies before his or her Retirement while still in Service (non duty), such Member's Dependent Children shall each receive one hundred dollars (\$100.00) each month unless the Dependent Children equally share seventy-five percent (75%) of such Member's Pension. Any payments to a Dependent Child shall continue until the earlier of such Dependent Child's death, marriage, or attainment of age eighteen (18).

6. Any Group II Member's surviving Spouse, Dependent Child, or Dependent Parent who receives a Pension pursuant to a Vested Member's death before Retirement shall also receive any balance in the Group II Member's Cash Balance Account plus Regular Interest thereon multiplied by two (2).

D. Death of Vested Member after Separation of Service

1. If a Member dies after his or her Separation of Service and before applying for his or her Pension and such Member's age and Credited Service total at least sixty-five (65) as of the Member's Separation of Service, then such Member's surviving Spouse may elect one (1) of the following options:
  - a. A refund of the Member's Contributions plus Regular Interest thereon; or
  - b. A Pension as provided in Rule 5.1(C).
2. If a Member dies after Separation of Service and before applying for his or her Pension and such Member's age and Credited Service do not total at least sixty-five (65) as of the Member's Separation of Service, then such Member's surviving Spouse shall elect one (1) of the following options:
  - a. A refund of the Member's Contributions plus Regular Interest thereon; or
  - b. A Pension as provided in Rule 5.1(C) to commence on the Member's Normal Retirement Date; or
  - c. A Pension as provided in Rule 5.1(C) to commence on the Member's Early Retirement Date and subject to any applicable Early Retirement Penalty.
3. If a Member dies after Separation of Service and before applying for his or her Pension and leaves no surviving Spouse, then the Member's Dependent Children shall elect and equally share the benefit pursuant to this Rule 5.1(D). Any payments to a Dependent Child shall continue until the earlier of such Dependent Child's death, marriage, or attainment of age eighteen (18).
4. If a Member dies after Separation of Service and before applying for his or her Pension and such Member leaves no surviving Spouse or Dependent Children then such Member's Beneficiary or estate shall receive the Member's Contributions plus Regular Interest thereon.
5. Any recipient of a Group II Member's Contributions plus Regular Interest thereon shall also receive any balance in such Group II Member's Cash Balance Account plus Regular Interest thereon.

**5.2 Death of Member After Retirement**

- A. Upon the death of a Group I, Group III, or Group V Member who is receiving a Pension, the Member's surviving Spouse shall receive seventy-five percent (75%) of such Pension if the Member and surviving Spouse were married for at least one (1) year immediately preceding the Member's Retirement.

- B. Upon the death of a Group I, Group III, or Group V Member who is receiving a Pension and who leaves no surviving Spouse, such Member's Dependent Children shall equally share seventy-five percent (75%) of such Pension. Any payments to a Dependent Child shall continue until the earlier of such Dependent Child's death, marriage, or attainment of age eighteen (18).
- C. An unmarried Member or any married Group II, Group IV, or Group VI Member shall be allowed a one-time, irrevocable designation of a Beneficiary and election of an actuarially reduced Pension that provides the designated Beneficiary with a percentage of such reduced Pension. If a Beneficiary predeceases the Member, there shall be no adjustment to the member's actuarially reduced Pension.
- D. Upon the death of an unmarried Member or a Group II, Group IV, or Group VI Member who is receiving an actuarially reduced Pension pursuant to Section 5.2(C) above, the Member's surviving Beneficiary shall receive the percentage of such Pension as specified by the Member upon his or her election to receive such reduced Pension.
- E. A Member who becomes married after retirement and has not designated a Beneficiary under Section 5.2 (C) may make a spousal election to receive a reduced pension if the Member elects such reduced Pension within six (6) months following the second (2<sup>nd</sup>) year of marriage to his or her Spouse. Upon the death of a Member who is receiving an actuarially reduced Pension pursuant to a spousal election after Retirement, the Member's surviving Spouse shall receive seventy-five percent (75%) of such reduced Pension. The Pension of a Member who is receiving an actuarially reduced Pension pursuant to a spousal election after Retirement, who selected a reversion option, and whose Spouse predeceases the Member, shall revert to its amount before the actuarial reduction pursuant to the spousal election and shall include any applicable cost-of-living adjustments.
- F. Upon the death of a Member who is receiving a Pension, such Member's Dependent Children shall each receive one hundred dollars (\$100.00) each month unless the Dependent Children equally share seventy-five percent (75%) of the Member's Pension. Any payments to a Dependent Child shall continue until the earlier of such Dependent Child's death, marriage, or attainment of age eighteen (18).
- G. Upon the death of a Member who designated a Beneficiary upon Retirement and who marries thereafter, only the Beneficiary shall receive a Pension.
- H. Upon the death of a Member who is receiving a Pension and who leaves no surviving Spouse, Beneficiary, or Dependent Child, an amount equal to the Member's total Member Contributions plus Regular Interest, less any amount previously paid him or her from the Fund, shall be paid to such Member's estate.
- I. Payments to a Member's surviving Spouse, Beneficiary, or Dependent Children shall terminate upon the death of such Spouse, Beneficiary, or Dependent Children or, in the case of Dependent Children, such children are no longer eligible to receive a benefit under Section 5.2(F). Upon such termination of a Pension to surviving Spouse, Beneficiary, or Dependent Child described immediately above, an amount equal to the Member's total Member Contributions plus Regular Interest, less any amount previously paid from the Fund, shall be paid to the Member's estate.
- J. Retired Employees' Group Death Benefit Fund
  - 1. The Board shall act on behalf of the City Council as the trustee of the Retired Employees' Group Death Benefit Fund and act under the same provisions, regulations, and procedures applicable to the Fund. All records and earnings of the assets of the Retired Employees'

Group Death Benefit Fund shall be maintained separate and apart from the assets and earnings of the Fund.

2. The Pension Office, through its Executive Director, shall be charged with administering lump-sum payments from the Retired Employees' Group Death Benefit Fund and any such payments shall be disbursed solely from funds appropriated by and subject to the purposes set forth by the City Council. Such records as may be necessary for the administration and accounting of the assets of the Retired Employees' Group Death Benefit Fund shall be maintained and no payments shall be made from Member Contributions or City Contributions or from any earnings on such Member Contributions or City Contributions.
3. Upon the death of a retired Member who is survived by a Spouse or Beneficiary, such Spouse or Beneficiary may be eligible to receive a five thousand dollar (\$5,000) lump sum. Upon written request by the Member's surviving Spouse or Beneficiary, the lump sum amount, or a portion thereof, may be paid to the funeral home administering services with respect to the Member.
4. Upon the death of a retired Member who is not survived by a Spouse or Beneficiary, such Member's estate shall receive a five thousand dollar (\$5,000) lump sum in lieu of any payments that would have been payable under the City's group life insurance plan while the Member was in Service and upon presentation of one of the following instruments:
  - a. Letter of Testamentary granted by a court naming the legal executor of the Member's estate;
  - b. Letter of Administration appointing a person or persons to administer Member's estate;
  - c. Muniment of title signed by a judge;
  - d. Affidavit of Small Estate approved by a court; or
  - e. Judgment declaring heirship.
5. Lump-sum payments from the Retired Employees' Group Death Benefit Fund shall not be paid to any Beneficiary of a Member: (i) who retired from Service before January 1, 1970; or (ii) who was granted a disability Pension and applied for a premium waiver under the City's group life insurance plan.



## RULE 6

### BENEFIT DISBURSEMENT

#### 6.1 Compliance with the Internal Revenue Code

##### A. Compliance General Provisions

1. The Board intends that the Fund remains a “qualified plan” as such term is defined under the Code. A qualified plan must satisfy the Code in both form and operation and, to the extent applicable to the Fund, the Code provisions set forth in these Rules shall govern. The actuarial assumptions used with respect to the Plan shall be consistent with the requirements of the Code.
2. In the event the Board determines that an error in the calculation of a Pension has resulted in the over or under payment of a benefit under the Plan, the Board shall have the authority to correct such calculation and make any adjustments required to maintain compliance with the Code.

##### B. Pension Compliance

1. Notwithstanding any other provision within these Rules, a Member’s Pension may not exceed the amount allowed under a qualified plan pursuant to Section 415(b) of the Code.
2. A Member’s Pension may increase by annual cost-of-living adjustments only to the maximum permitted under Section 415(d) of the Code.
3. If the combined amounts from two (2) or more retirement plans sponsored by the City would exceed the limits imposed under the Code, a Pension provided under the Plan shall be reduced to the extent necessary to comply with the limits set forth under the Code.

##### C. Pension Distribution Compliance<sup>9</sup>

1. Unless a Member remains in Service, his or her Pension shall commence no later than the latest of the following: (i) April 1<sup>st</sup> following the calendar year in which the Member attains age seventy and one-half (70½); or (ii) April 1<sup>st</sup> following the calendar year in which the Member retires; or (iii) such later date as may be set forth in the Code.
2. A Member’s Pension shall be distributed in one or more of the following ways:
  - a. Over the life of the Member and his or her designated beneficiary;
  - b. Over a period certain not extending beyond the Member’s life expectancy; or
  - c. Over a period certain not extending beyond the life expectancy of the Member and his or her designated beneficiary.

---

<sup>9</sup> Note, revisions in this Section 6.1(C) made for consistency with the corresponding provisions in the Staff Plan.



3. If a Member dies after his or her Pension commences the distribution of any remaining benefit will be at least as rapid as under the method of distribution to the Member.
4. If a Member dies before his or her Pension commences, the distribution of any remaining benefit that is payable to a designated beneficiary will be distributed either: (i) within five (5) years after the Member's death; or (ii) over the life or life expectancy of the designated beneficiary and commencing not later than December 31<sup>st</sup> following the calendar year in which the Member died or would have attained age seventy and one-half (70½).
5. For purposes of this Rule 6.1(C), (i) all distributions will be made in a manner consistent with Section 401(a)(9) of the Code and the Treasury Regulations thereunder, and (ii) the term "designated beneficiary" has the meaning prescribed to such term in Section 401(a)(9) of the Code and the Treasury Regulations thereunder.

D. Rollover Distribution Compliance

A Member may elect, at the time and in the manner prescribed by the Board, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan.

1. An "eligible rollover distribution" is any distribution of all or a portion of a Member's Contributions. An eligible rollover distribution does not include any distribution that is: (i) a series of periodic payments including those over the life or life expectancy of the Member and/or his or her beneficiary; or (ii) subject to the minimum distribution requirements under the Code; or (iii) not includable in a Member's gross income unless transferred to a qualified trust or eligible retirement plan.
2. An "eligible retirement plan" is an individual retirement account, individual retirement annuity, annuity plan, qualified trust, eligible deferred compensation plan maintained by an eligible employer, or annuity contract as each is described in the Code and that accepts an eligible rollover distribution. An eligible retirement plan for a surviving Spouse, Beneficiary, or an alternate payee under a qualified domestic relations order shall only be an individual retirement account or individual retirement annuity.
3. If a Member elects to have an eligible rollover distribution paid to an eligible retirement plan, such distribution shall be made directly to the eligible retirement plan as specified by the Member. The Board shall be the sole determiner of both the Member's and the eligible retirement plan's eligibility with respect to any eligible rollover distribution.

**6.2 Suspension of Payments Upon Reemployment**

The Pension of a Member who returns to Service after Retirement shall be suspended. Upon return to Service such Member shall again earn Credited Service and such Credited Service shall be added to the Credited Service accrued during the Member's prior period of Service. Upon subsequent Retirement, the Member's Pension shall be recalculated using the Member's Credited Service accumulated during the Member's Service after his or her initial Retirement. The Member's Compensation Base shall be recalculated using the Earnings paid during the Member's Service after his or her initial Retirement. In no event shall a Member's Pension be reduced due to a return to Service.

### **6.3 Payments to Minors or Persons Lacking Capacity**

Disbursements from the Fund that are payable to a minor or to a person lacking legal capacity to handle his or her financial affairs shall be made to the legal guardian of such minor's or person's estate upon receipt of proof of legal guardianship. In the absence of a legally appointed guardian, the Board shall have the authority to withhold payments and to make application to a court of competent jurisdiction for the appointment of a legal guardian. Before withholding any payments, the Board shall give written Notice of its intention to withhold payments and shall provide the person whose payments are being withheld a meaningful opportunity to establish capacity to receive payments from the Fund.

### **6.4 Court Orders**

#### **A. Court Order General Provisions**

1. No portion of the Fund shall be held, seized, detained, subjected to or levied upon by virtue of any execution, attachment, garnishment, assignment, injunction or other writ, order, decree or any process or proceedings whatsoever issued by any court for the payment or satisfaction of any debt, damage, claim, demand or judgment against any person entitled to a benefit from the Fund, nor shall any claim with respect to the Fund be directly or indirectly assigned or transferred and any attempt to transfer or assign such claim shall be void unless for the deduction of insurance premiums on behalf of a Member's Spouse to a health or life insurance carrier engaged by the City.
2. Nothing shall prevent the division of a Member's Pension or other benefit accrued under the Plan between the Member and his or her former Spouse, children, and/or other beneficiaries pursuant to the terms of a valid order from a court of competent jurisdiction.
3. A court order with respect to benefits under the Plan shall not be honored if the order provides for any form of benefit or option to obtain a benefit that is not provided under the Plan or requires the Fund to provide increased benefits on the basis of actuarial value.

#### **B. Qualified Domestic Relations Order (QDRO)**

1. A Member's Pension may be reduced upon the qualification by a court of a Domestic Relations Order ("QDRO") awarding the Member's former Spouse ("Alternate Payee") a portion of such Member's Pension or other accrued benefit under the Plan. The court order must be a "qualified domestic relations order" within the meaning of the Code.
2. The maximum percentage of a Member's Pension that may be awarded to an Alternate Payee is fifty percent (50%) of such Member's gross benefit under the Plan.
3. A QDRO must either designate a specific monthly amount or a specific percentage of the Member's Pension that shall be disbursed to an Alternate Payee and no payments shall be disbursed to an Alternate Payee until commencement of the Member's Pension. Notwithstanding the above, a QDRO may not designate a specific monthly amount subsequent to January 1, 2017.
4. The Pension Office must receive the QDRO and a certified copy of the Member's entire, final divorce decree or judgment of divorce.

5. No QDRO shall be honored if such QDRO requires any disbursements to an Alternate Payee that are already required to be paid to another Alternate Payee.
6. Upon the death of a Member whose Pension is subject to a QDRO and whose Pension has commenced, all payments to the associated Alternate Payee shall cease and the Alternate Payee shall be eligible for no further benefits under the Plan.
7. No single sum payment shall be disbursed to an Alternate Payee except with respect to the refund of a Member's Contributions. If a Member whose future Pension is subject to a QDRO (i) Separates from Service and requests to take a refund of his or her Member Contributions; (ii) dies before his or her Pension commences; or (iii) dies after his or her Pension commences but before all of such Members' Contributions plus Regular Interest have been paid, the Alternate Payee shall not receive a Pension but shall instead receive the portion of the Member's Contributions plus Regular Interest thereon in the ratio of distribution provided in the QDRO and as a single-sum distribution so long as the Pension Office is in receipt of such QDRO prior to the distribution of the Member's Contributions.

**Appendix A**

**Statement of Investment Objectives and Guidelines**



**STATEMENT OF INVESTMENT  
OBJECTIVES AND GUIDELINES**

**Fort Worth Employees' Retirement Fund**

**Revised January 24, 2018**

## **Table of Contents**

---

I. Purpose of the Investment Policy .....	3
II. Investment Philosophy .....	3
III. Duties and Responsibilities.....	4
IV. Asset Allocation Strategy .....	6
V. Investment Return Objectives and Benchmarks .....	7
VI. Responsibilities of Public Market Managers.....	10
VII. Monitoring, Evaluation and Review .....	13
VIII. Placing Managers on “Watch List” Status.....	13
IX. Use of Commingled and Mutual Fund Vehicles .....	15
X. Reporting Requirements .....	15
Appendix A: Thematic Asset Class Policy Target Allocations, Ranges and Rebalancing	
Appendix B: Real Estate Portfolio Investment Guidelines	
Appendix C: Private Equity Portfolio Investment Guidelines	
Appendix D: Absolute Return Strategy Portfolio Investment Guidelines	
Appendix E: Fund Asset Class Guidelines	
Appendix F: Investment Manager Transitions	
Appendix G: Securities Lending	

## **I. PURPOSE OF THE INVESTMENT POLICY**

The purpose of this Statement of Investment Objectives and Guidelines (“Policy”) is to assist the Fort Worth Employees’ Retirement Fund (the “Fund”) Board of Trustees (“Board” or “Trustees”) in effectively supervising and monitoring the Fund’s assets and investments.

In the various sections of this policy document, the Trustees define the Fund’s investment program by:

- documenting the Trustees’ attitudes, expectations and objectives in the investment of Fund assets;
- setting forth an investment structure for managing assets. This structure includes various asset classes, functional themes, and investment management styles that, in aggregate, are expected to produce a prudent level of diversification and investment return over time;
- providing guidelines for each investment manager portfolio that control the level of risk assumed in the portfolio and ensure that assets are managed in accordance with stated objectives; and
- setting criteria to monitor and evaluate the performance results achieved by the investment managers.

This Policy represents the Trustees’ current philosophy regarding the investment of Fund assets.

## **II. INVESTMENT PHILOSOPHY**

### **Funding Philosophy**

The Fund’s overall objective is to achieve the highest level of investment performance that is compatible with the Board’s risk tolerance and prudent investment practices. Because of the long-term nature of the Fund’s pension liabilities, the Trustees maintain a long-term perspective in formulating and implementing the Fund’s investment policies, and in evaluating its investment performance. Based on general beliefs about the long-term investment returns available from a well-diversified portfolio, the Trustees adopted the following Total Fund Investment Objectives:

- Within the framework of prudent risk limitations, the minimum investment objective is to achieve an average long-term total rate of return which satisfies the actuarial assumed rate of return. The actuarial rate of return is set at 7.75%.
- The Fund shall also strive to achieve investment performance that exceeds the rate of inflation over time thereby providing a real rate of return.

### **Risk**

The investment risk philosophy for the Fund is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

- Increasing risk should be rewarded with compensating returns over time and, therefore, prudent risk taking is justifiable for long-term investors.

- Risk can be controlled through diversification of asset classes and investment approaches, as well as diversification of individual securities.
- The primary determinant of long-term investment performance is the strategic or long-term allocation of assets among various asset classes
- Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes are unlikely to be rewarded.

Given these principles, the Fund has established a long-term asset allocation policy (specified in the Asset Allocation section of the Policy) that balances the return required to meet the Fund's objectives and the risk level that is appropriate under existing circumstances. In determining its risk posture, the Trustees have properly considered, in accordance with its fiduciary obligations and statutory requirements, the Fund's purpose and characteristics, current and projected financial condition, liquidity needs, sources of contribution, income, and general operating conditions.

### **Diversification**

In order to achieve this real rate of return, the Fund will rely on an investment strategy utilizing an appropriate long-term, diversified asset allocation model. Diversification distributes a portfolio across many investments to avoid excessive exposure to any one source of risk. The Trustees will determine the proper allocation among asset classes and investment managers, based on advice and analysis provided by the Advisory Consultant(s) with assistance from the Investment Staff.

## **III. DUTIES AND RESPONSIBILITIES**

### **Board of Trustees**

The Board is responsible for overseeing the investment of the funds supporting the City and Staff retirement plans. Its primary duty is to set the asset allocation by determining the asset classes to be used and allocating a certain percentage of funds to each class. The Board follows the Prudent Investor Act of the Texas law and diversifies investments in order to achieve an optimal rate of return for a reasonable amount of risk. It is also responsible for setting an investment policy detailing the process for hiring, evaluating, and terminating investment managers. The Board has the authority to hire investment consultants, investment managers, and custodian banks to assist in the investment and oversight responsibility.

### **Investment Committee**

The Investment Committee is established by the Board and has been delegated certain powers, duties and functions by the Board. The Investment Committee makes recommendations to the Board on investment actions; however, ultimate responsibility for investment and asset allocation decisions remains with the Board. When deemed necessary, the Investment Committee meets prior to the regular meeting of the Board to address overall investment activities. Investment Staff and the Advisory Consultant(s) brief the Committee on any topics or issues pertinent to the Fund's investment operations, and make recommendations to the Committee for appropriate courses of action.



## **Investment Staff**

The Executive Director, with the assistance of Investment Staff, has the responsibility and authority to assist the Board and the Investment Committee in establishing investment and administrative policy and to monitor the implementation of the policies and programs established by the Board. The Investment Staff also has the responsibility to work with the Advisory Consultant and make recommendations regarding the Board's investment policy, strategy, overall portfolio monitoring and composition, and diversification of Fund investments. The Investment Staff reports to the Board on the status of the Fund and the operations of the Fund.

The Executive Director, in consultation with the Executive Committee of the Board, shall have the authority to make emergency investment decisions as necessary in situations requiring immediate action to protect the assets of the Fund. Any emergency actions taken by the Executive Director shall be communicated to the Board as soon as administratively practicable and reported to both the Investment Committee and the full Board in a stated agenda item at their next regularly scheduled or special meeting(s).

## **Discretionary Investment Consultant**

The Discretionary Investment Consultant ("Discretionary Consultant") is hired by and serves at the pleasure of the Board of Trustees. The Discretionary Consultant makes investment decisions without seeking approval from the Board but with consideration of asset allocation, diversification, and current Total Fund exposures. The Discretionary Consultant, however, will operate within the parameters of this Policy and/or to any other policy set forth by the Board and will periodically report results to the Board. The Discretionary Consultant collaborates with the General Investment Advisory Consultant ("General Consultant" or "Advisory Consultant") on Total Fund recommendations.

## **Advisory Investment Consultant(s)**

The Advisory Investment Consultant(s) ("Advisory Consultant"), which include the General Consultant or Specialty Consultant(s), are hired by and reports directly to the Board of Trustees. The Advisory Consultant's duty is to work with the Board, Investment Committee, and Investment Staff in the management of the investment process. This includes regular meetings with the Board to provide an independent perspective on the Fund's goals, structure, performance and managers. The Board may elect to retain one or more Advisory Consultants that specialize in specific areas of asset consulting. The Advisory Consultant will render investment advice to the Fund based on the needs and goals of the Fund regarding such matters as the Board's investment policy, strategy, overall portfolio monitoring and composition, and diversification of Fund investments. The Advisory Consultant does not have discretionary authority with respect to investments and the Board makes all final decisions regarding investments recommended by the Advisory Consultant.

## **External Investment Managers**

The External Investment Managers ("Managers") are selected by, and serve at the pleasure of, the Board. The Board will retain Managers that specialize in the use of particular asset classes. The Investment Staff and the Advisory Consultant will provide the Managers with explicit written directions detailing their particular assignments. Managers have full discretion to select, buy, and sell securities or investments within the parameters specified in this Policy and within the investment management agreement between the Board and the Manager. Managers will construct and manage

investment portfolios that are consistent with the investment philosophy and disciplines for which they were hired.

### **Custodian**

The Custodian is selected by, and serves at the pleasure of, the Board. The Custodian(s) will collect income and safe keep all cash and securities, and will regularly summarize these holdings, along with performance, for Investment Staff's review. The Custodian will provide data and performance reports to the Investment Staff and the Advisory Consultant at intervals specified by the Fund's written policy or contract. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to Managers, and to invest such cash in liquid, interest-bearing instruments.

The Custodian shall ensure that any idle cash not invested by Managers shall be invested daily via an automatic sweep to a Short Term Investment Fund (STIF) managed by the Custodian or by others on behalf of each Manager.

Each of the bodies and entities in this section are fiduciaries to the Fund and must act prudently, and in accordance with Section 802.203 of the Texas Government Code, the applicable provisions of the Texas Trust Code and any other related laws of the State of Texas as those laws apply to the fiduciary duties of municipal public pensions. These fiduciaries must also avoid conflicts of interests and may not engage in transactions on behalf of the Fund for the purpose of benefiting other parties unrelated to the Fund.

## **IV. ASSET ALLOCATION STRATEGY**

### **Asset Class Policy Targets and Ranges**

The Fund's asset allocation policy is intended to reflect and be consistent with the return objective and risk tolerance expressed in this Policy. It is designed to provide the highest probability of meeting or exceeding the Fund's objectives at a level of risk acceptable to the Board.

Specific asset class target allocations, and their acceptable allocation ranges, can be found in Appendix A to this Policy.

### **Rebalancing**

Because the asset classes do not move in concert, allocation deviations will occur through normal market activity.

Specific rebalancing procedures can be found in Appendix A to this Policy.

## **V. INVESTMENT RETURN OBJECTIVES AND BENCHMARKS**

### **Total Fund Performance Objectives<sup>1</sup>**

The Trustees adopted the following comparative objectives for the Total Fund:

- A. The Fund (gross of fees) should rank in the fiftieth (50<sup>th</sup>) percentile or better compared to a nationally recognized universe of other Public Funds of similar size measured over a minimum period of five (5) years.
- B. Short Term: The Fund's overall annualized total return (net of fees), calculated relative to an asset allocation target policy index, measured over a period of three (3) to five (5) years, should exceed the return that would have been achieved if the Fund had been fully invested according to the approved target allocation (the "Implementation Benchmark").
- C. Long Term: The Fund's overall annualized total return (net of fees), calculated relative to an asset allocation target policy index, measured over a period of five (5) years or longer, should exceed the return that would have been achieved if the Fund had been fully invested according to the approved target allocation (the "Target Benchmark").

The Trustees approved the following policy indices for calculating the Implementation Benchmark:

- High Growth Implementation Index
- Growth Implementation Index
- Capital Preservation Implementation Index
- Diversification Implementation Index
- Inflation Implementation Index
- Liquidity Implementation Index

The Trustees approved the following policy indices for calculating the Target Benchmark:

- Morgan Stanley Capital International All Country World Index (Net) + 3%
- Morgan Stanley Capital International All Country World Index (Net)
- BofA Merrill Lynch 3 Month U.S. Treasury Bill Index + 3%
- Bloomberg U.S. Aggregate Bond Index
- Consumer Price Index + 4%
- BofA Merrill Lynch 3 Month U.S. Treasury Bill Index

---

<sup>1</sup> These are only investment objectives for the Fund. Failure to meet any of the listed objectives is not an indication that the Board is not in compliance with its fiduciary duty.

## **Thematic Asset Class Objectives**

### **1. High Growth**

The following performance goals have been established for the Fund's high growth segment:

- Short Term: The high growth segment total return should exceed the total return of an implementation benchmark based on the benchmarks of the underlying managers over a period of three (3) to five (5) years.
- Long Term: The high growth segment total return should exceed the total return of the Morgan Stanley Capital International All Country World Index (Net) + 3% over a period of five (5) years or longer.
- The individual Manager's total return should perform at the fiftieth (50<sup>th</sup>) percentile or better compared to a nationally recognized universe of managers possessing a similar style over a minimum period of five (5) years.
- The individual Manager's total return should exceed the total return of an appropriate index for a specific manager mandate over a minimum period of five (5) years.
- Performance objectives for the real estate strategies included in this segment are stated in Appendix B: Real Estate Portfolio Investment Guidelines.
- Performance objectives for the private equity strategies included in this segment are stated in Appendix C: Private Equity Portfolio Investment Guidelines.
- Performance objectives for the absolute return strategies included in this segment are stated in Appendix D: Absolute Return Strategy Portfolio Investment Guidelines.

### **2. Growth**

The following performance goals have been established for the Fund's growth segment:

- Short Term: The growth segment total return should exceed the total return of an implementation benchmark based on the benchmarks of the underlying managers over a period of three (3) to five (5) years.
- Long Term: The growth segment total return should exceed the total return of the Morgan Stanley Capital International All Country World Index (Net) over a period of five (5) years or longer.
- The individual Manager's total return should perform at the fiftieth (50<sup>th</sup>) percentile or better compared to a nationally recognized universe of managers possessing a similar style measured over a minimum period of five (5) years.
- The individual Manager's total return should exceed the return of an appropriate index for a specific manager mandate over a minimum period of five (5) years.

Performance objectives for the real estate strategies included in this segment are stated in Appendix B: Real Estate Portfolio Investment Guidelines.

- Performance objectives for the absolute return strategies included in this segment are stated in Appendix D: Absolute Return Strategy Portfolio Investment Guidelines.

### **3. Diversification**

The following performance goals have been established for the Fund's diversification segment:

- **Short Term:** The diversification segment total return should exceed the total return of an implementation benchmark based on the benchmarks of the underlying managers over a period of three (3) to five (5) years.
- **Long Term:** The diversification segment total return should exceed the total return of the BofA Merrill Lynch 3 Month U.S. Treasury Bill Index + 3% over a period of five (5) years or longer.
- The individual Manager's total return should perform at the fiftieth (50<sup>th</sup>) percentile or better compared to a nationally recognized universe of managers possessing a similar style over a minimum period of five (5) years.
- The individual Manager's total return should exceed the total return of an appropriate index for a specific Manager mandate over a minimum period of five (5) years.
- Performance objectives for the absolute return strategies included in this segment are stated in Appendix D: Absolute Return Strategy Portfolio Investment Guidelines.

### **4. Capital Preservation**

The following performance goals have been established for the Fund's capital preservation segment:

- **Short Term:** The capital preservation segment total return should exceed the total return of an implementation benchmark based on the benchmarks of the underlying managers over a period of three (3) to five (5) years.
- **Long Term:** The capital preservation segment total return should exceed the total return of the Bloomberg U.S. Aggregate Bond Index over a period of five (5) years or longer.
- The individual Manager's total return should perform at the fiftieth (50<sup>th</sup>) percentile or better compared to a nationally recognized universe of managers possessing a similar style over a minimum period of five (5) years.
- The individual Manager's total return should exceed the total return of an appropriate index for a specific Manager mandate over a minimum period of five (5) years.

## 5. Inflation

The following performance goals have been established for the Fund's inflation segment:

- Short Term: The inflation segment total return should exceed the total return of an implementation benchmark based on the benchmarks of the underlying managers over a period of three (3) to five (5) years.
- Long Term: The inflation segment total return should exceed the total return of the Consumer Price Index + 4% over a period of five (5) years or longer.
- The individual Manager's total return should perform at the fiftieth (50<sup>th</sup>) percentile or better compared to a nationally recognized universe of managers possessing a similar style over a minimum period of five (5) years.
- The individual Manager's total return should exceed the total return of an appropriate index for a specific Manager mandate over a minimum period of five (5) years.
- Performance objectives for the real estate strategies included in this segment are stated in Appendix B: Real Estate Portfolio Investment Guidelines.

## 6. Liquidity

The total cash and equivalents return should exceed the total return of the BofA Merrill Lynch 3 Month U.S. Treasury Bill Index over a period of five (5) years or longer.

## **VI. RESPONSIBILITIES OF PUBLIC MARKET MANAGERS**

The duties and responsibilities of each of the Managers retained by the Trustees include:

1. Registration as an investment advisor under the Investment Advisers Act of 1940. The Manager must remain a registered investment advisor throughout the contractual term.
2. Managing the assets in accordance with the Policy guidelines and objectives as set forth in the investment management agreement between the Manager and the Fund.
3. Acknowledging in writing to the Trustees the Manager's intention to comply with this Policy as it currently exists or as modified in the future.
4. Exercising full investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the Manager's current investment strategy and compatible with investment objectives.
5. Promptly informing Investment Staff and Consultant regarding all significant matters pertaining to the investment of the plan assets, for example:
  - changes in investment strategy, portfolio structure and market value of managed assets;

- the Manager's progress in meeting the investment objectives set forth in this document; and,
  - significant changes in the ownership, affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organizations.
6. Initiating written communication with the Trustees whenever the Manager believes that this Policy should be altered. No deviation from guidelines and objectives should take place until after such communication has occurred and the Trustees have approved such deviation in writing. Managers are expected to be familiar with the holdings guidelines expressed in Appendix F of this document.
  7. The Trustees formally delegate full authority to each Manager for exercising all proxy and related actions of the assets assigned. Each Manager shall promptly vote all proxies and related actions in a manner consistent with the long-term interests of the Fund and its Participants and Beneficiaries. Each Manager shall keep detailed records of all said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
  8. Each Manager shall utilize the same due care, skill, prudence and diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity, as a fiduciary, and fully familiar with such matters would use in like activities for like plans with like aims, while maintaining appropriate diversification to avoid the risks of large losses, in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as pertaining to fiduciary duties and responsibilities.
  9. Periodic presentations to the Trustees (and its designated Advisory Consultant) that include exhibits, written material, etc. Please refer to Section X for a description of the presentation and reporting requirements.
  10. The Trustees shall use the Advisory Consultant to: (1) assist in appraising performance, (2) to provide performance comparison data with other retirement plans, several capital market indices, and to other Managers, (3) assist in evaluating Manager style discipline and peer comparisons, (4) assist in strategic planning and management of the plan, and (5) other factors the Trustees deem appropriate. Managers are required to support and assist the Advisory Consultant with their fullest cooperation.

#### 11. Authorized Uses of Derivatives

Investment managers shall not purchase securities on margin, sell short, use individual stock options, puts, calls, or trade in futures contracts, unless specified in the investment management agreement entered into by the Fund and the investment manager.

## 12. Authorized Uses of Cryptocurrencies

Investment managers shall not purchase cryptocurrencies on margin, sell short, use individual options, puts, calls, or trade in future contracts, unless specified in the investment management agreement entered into by the Fund and the investment manager.

## 13. Liquidity and Marketability Restrictions

From the Fund's perspective, liquidity and marketability are a function of a Manager's aggregate holdings in a particular security. A Manager shall not buy or hold a security for the Fund portfolio if the aggregate holdings among all of that Manager's other accounts in that same security would restrict the Manager's ability to expeditiously liquidate the position at any time.

If, from a Total Fund perspective, the collective holdings among all Fund Managers accounts in the same security would restrict all Managers' collective ability to expeditiously liquidate their respective positions in that security, the Fund retains the sole right to limit any Manager's holding of any security in the Fund in order to prevent the potential for the Fund's collective liquidation and market risk.

## 14. Usage of Cross Asset Segment Investment Guideline Restrictions

When a Manager's holdings include Fund assets outside of their primary assigned asset segment assignment (e.g.: a primary domestic equity manager also holds some cash equivalents or fixed income securities), the guidelines stated herein for the non-primary asset segment shall fully apply to the Manager, in addition to the primary assigned asset segment guidelines.

## 15. Diversification Restrictions

Except for criteria noted elsewhere in this Policy and in specific written contracts with each Manager, the appropriate and reasonable diversification of securities by such factors as geography, region, sovereign risk, native currency, quality, coupon, country, maturity, industry, duration, and sector is within the full discretion and responsibility of the Managers.

## 16. Fund Asset Utilization Restrictions

All Fund assets, in any form, shall be solely and exclusively: (a) settled, (b) held in custody, and (c) safe kept only with custodians designated by the Trustees at their sole discretion. To the extent that the Trustees invest a portion of the Fund's assets in commingled vehicles or institutional mutual funds, then the investment guidelines of the fund will be adopted as the Fund's guidelines.

## 17. Transaction Agent Assignment Restrictions

Assignment of specific brokerage firms, dealers, financial institutions, and other transaction execution agents to all Managers shall be the sole responsibility of the Fund. From time to time, the Trustees at their sole discretion may specify certain broker/dealers with which to execute investment transactions.



## **VII. MONITORING, EVALUATION AND REVIEW**

On a timely basis, but not less than four times a year, the Trustees will review actual investment results achieved by each Manager (with a perspective toward rolling three-year and five-year time horizons) to determine whether:

- the Managers performed in adherence to the investment philosophy and policy guidelines set forth herein,
- the Managers performed satisfactorily when compared with:
  - the objectives set forth in Appendix A, as a primary consideration;
  - their own previously stated investment style;
  - other investment managers, both in asset class and in style group;
  - several different market indices.

The Trustees may appoint investment consultants to assist in the on-going evaluation process. The consultants selected by the Trustees are expected to be familiar with the investment practices of other similar retirement plans and will be responsible for suggesting appropriate changes in the Fund's investment program over time.

## **VIII. PLACING MANAGERS ON "WATCH LIST" STATUS**

A manager retention decision is very important to the continued success of a pension fund's investment strategy. The Watch List Policy applies to liquid Managers in the following asset classes: high growth, growth, diversification, capital preservation, and inflation. The watch list should not necessarily lead to any needed action but rather is intended to place a manager under increased scrutiny based on failure to meet quantitative or qualitative standards.

### **Quantitative Factors Resulting in Watch List Additions**

A number of factors may contribute to a Manager's over- or under-performance at any given time such as - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. The following represent guidelines to be used in making a recommendation to the Investment Committee or Board with regard to placing a public market asset Manager on the Watch List:

- Test 1     If the Manager's rolling, five-year return (net of fees) falls below the rolling, five-year benchmark return for three (3) consecutive quarters.
- Test 2     If the Manager's rolling, five-year return (net of fees) for three (3) consecutive quarters ranks in the bottom third of the Advisory Consultant's peer group universe.

At the discretion of the Investment Committee or Board, a Manager may be included on the Watch List based on these criteria and placed on the Watch List at any time.

Once a Manager is placed on the Watch List for performance reasons, the Investment Committee will be notified by the Advisory Consultant and/or Investment Staff and performance will be closely monitored and scrutinized. All of the qualitative criteria will be reviewed and an explanation of the underperformance will be required from the Manager. Additional actions could include Investment Staff meetings with the Manager and a formal re-interview of the Manager by the Board.

The manager will be closely monitored during the Watch List period and remain under close scrutiny until the Advisory Consultant, Investment Staff, and Investment Committee or Board agree that the quantitative and qualitative criteria for removal from the Watch List have been satisfied. Generally, one period of a rolling, five (5) year return above the benchmark or above the bottom third of the Advisory Consultant's peer group universe following placement on the Watch List will be required for a Manager's removal from the Watch List for performance reasons. The observation process will at this point begin again.

### **Qualitative Factors Resulting in Watch List Additions**

A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered a reason to add the Manager to the Watch List. Examples include, but are not limited to, these events:

- Violation of investment guidelines
- Deviation from stated investment style and/ or shifts in the firm's philosophy or process
- Turnover of one or more key personnel
- Change in firm ownership or structure
- Significant loss of clients and/or assets under management
- Significant and persistent lack of responsiveness to client requests
- Litigation
- Failure to disclose significant information, including potential conflicts of interest
- Chronic violations of the Fund's Investment Policy
- Any other issue or situation of which the Investment Staff, the Advisory Consultant and/or Committee/Trustees become aware that is deemed material.

Should any of these events occur, the recommended courses of action are similar to those contained in the preceding section (Quantitative Factors Resulting in Watch List Additions). After an assessment of the nature of the problem or potential problem, the Investment Committee should then make a determination as to the appropriate course of action at the meeting after notification.

Because of the subjective nature of qualitative analysis, both additions and removals should be handled by the Advisory Consultant, Investment Staff and the Board on a case-by-case basis.

## **IX. USE OF COMMINGLED AND MUTUAL FUND VEHICLES**

The Trustees may choose to invest in mutual funds, commingled funds, partnerships, exchange-traded funds, or other pooled vehicles if they are invested substantially in a manner consistent with guidelines stated in this Policy. However, the Trustees recognize that such investments will be ultimately governed by the vehicle's established guidelines and restrictions, as outlined in the prospectus, subscription agreements, or other offering documents prepared by the investment manager.

## **X. REPORTING REQUIREMENTS**

### **General Consultant Reporting**

The Fund's General Consultant will provide quarterly reports to the Trustees which, at a minimum, will review the following information about each Manager and the Total Fund:

- Overview of the most recent quarter and year-to-date investment indicators;
- Total Fund asset allocation;
- Attribution of investment return (income, capital appreciation or loss);
- Performance results by individual manager and Total Fund compared to appropriate benchmarks.

### **Specialized Consultant Reporting**

The Fund's Specialized Consultant(s) will provide at least semi-annual reports to the Trustees, which at a minimum, will review the following information about each Manager and the Total Program:

- Overview of the most recent quarter and year-to date investment indicators;
- Performance results by individual manager and Total Program compared to appropriate benchmarks.

### **Investment Manager Reporting**

Each Manager will provide the Investment Staff and the Advisory Consultant with a quarterly report of their activity no later than thirty (30) days after the end of a quarter. Each report will contain the following information:

- Beginning asset value at cost and market.
- Ending asset value at cost and market. New contributions should be separately identified. Asset listings should include appropriate information on each equity security position to include name, number of shares, dividend yield, cost, market, current gain or loss and industry or sector. Debt security information should include name, position size, cost, market, coupon, maturity, rating, yield, current gain or loss. (The Global REIT manager report will include a country allocation breakdown rather than an industry/sector summary.)
- Securities sold and purchased during the quarter.
- Quarterly, year-to-date, and since-inception performance results.
- Written discussion of most recent quarterly results and near-term investment strategy.
- Brokerage fees for the quarter and year-to-date by brokerage firm utilized, including average cents-per-share and total commission dollars expended.

- The name and responsibility of key personnel, if any, who have been hired or terminated from the organization. The Manager is to provide verbal and written notice to Investment Staff within ten days from the date a key person is hired or terminated.

**APPENDIX A: THEMATIC ASSET CLASS POLICY TARGET ALLOCATIONS,  
RANGES AND REBALANCING**

The Fund's asset allocation policy is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Policy. It is designed to provide the highest probability of meeting or exceeding the Fund's objectives at a controlled level of risk that is acceptable to the Board.

The Trustees have reviewed the investment program for the Fund and have developed a long-term strategic asset allocation plan. The review included projections that were based on long-term capital market behavior and the Fund's financial and demographic characteristics. The financial implications of a wide range of investment alternatives (conservative to aggressive) were evaluated.

The Trustees elected to employ six broad and distinct thematic asset classes in the portfolio:

High Growth	Capital Preservation
Growth	Inflation
Diversification	Liquidity

Return, risk and diversification assumptions were established for each, and efficient portfolios of the six asset classes were identified. As a result, commitment to the thematic asset classes listed in the table below will be made to ensure diversification. Based on its determination of the appropriate risk tolerance for the Fund, and its long-term return expectations, the Board has chosen the following Strategic Asset Allocation Policy:

<b><u>Asset Class</u></b>	<b><u>Target</u></b>	<b><u>Minimum</u></b>	<b><u>Maximum</u></b>
High Growth	22.0%	15.0%	29.0%
Growth	44.0%	35.0%	53.0%
Diversification	10.0%	5.0%	15.0%
Capital Preservation	15.0%	13.0%	17.0%
Inflation	8.0%	5.0%	11.0%
Liquidity	1.0%	0.0%	2.0%

The target allocation will be reviewed annually for reasonableness relative to significant economic and market changes or to changes in the Fund's long-term goals and objectives. A formal asset allocation study should be conducted at least every three years to verify or amend the targets.

Because the thematic asset classes do not move in concert, allocation deviations will occur through normal market activity. The implementation of a rebalancing policy is delegated to the Fund's Investment Staff, with the expectation that it will be assessed no less frequently than quarterly and will make allowances for illiquid investments that cannot reasonably be rebalanced on a regular basis.

When close to target, cash flows will be deployed in a manner that returns the portfolio to its target commitments.

## **APPENDIX B: REAL ESTATE PORTFOLIO INVESTMENT GUIDELINES**

### 1. Investment Guidelines

It is the Trustees' objective that the Real Estate Investment allocation should be strategic in nature and that, over the long term, inclusion of real estate investments should provide the following benefits to the total portfolio:

- Lower total portfolio risk through greater diversification;
- Provide cash flow through distributed income;
- Provide growth through appreciation;
- Serve as a hedge against unanticipated inflation; and
- Provide an opportunity to enhance total portfolio returns through higher total return investments.

Due to the illiquid nature of private real estate and the resulting unpredictability of cash flows, there may be times when the Real Estate Investment allocation is above or below its target weighting, which will cause the other asset classes to be over or under-weighted versus their targets.

Diversification by investment style is desired with an objective to allocate according to the following targets:

<b>Investment Style</b>	<b>Lower Range</b>	<b>Target</b>	<b>Upper Range</b>
Core	20%	30%	50%
Non-Core	35%	60%	75%
Public Real Estate Securities	0%	10%	15%

Given the illiquid nature of private real estate, unfunded capital commitments should be taken into account when reviewing the Real Estate Investments portfolio relative to the above-stated target allocations and ranges.

With regard to the **Private Real Estate** allocation, global diversification is desired. The guidelines for diversification between United States located real estate and internationally located real estate are as follows:

<b>Region</b>	<b>Policy Range</b>
United States	At least 50%
International	Up to 50%

Diversification by property type is also desired. The guidelines for **Private Real Estate** property type diversification are as follows:

<b>Property Type</b>	<b>Policy Range</b>
Office*	Up to 50%
Retail	Up to 50%
Industrial	Up to 50%
Multifamily**	Up to 50%
Hotel	Up to 30%
Other	Up to 50% (in aggregate)

\*Inclusive of specialty office investment types (e.g. medical office)

\*\*Inclusive of specialty multifamily investment types (e.g. student housing and seniors housing)

The Trustees desire to maintain a moderately-leveraged real estate portfolio in order to maximize returns to the total portfolio over the long term. The Trustees have approved a target leverage profile of less than fifty percent (50%) for the Real Estate Investment allocation, calculated on a loan-to-value (LTV) basis.

## 2. Portfolio Objectives

The Real Estate Investment portfolio returns shall be calculated adding realized and unrealized capital appreciation gains and losses plus income. The performance objective of the real estate portfolio is to achieve a total return, on a net-of-fees basis, over rolling ten-year periods in excess of the weighted average of the NCREIF Fund Index-Open Diversified Core Equity (“NCREIF-ODCE”) and the FTSE EPRA/NAREIT Developed Rental Index, for the private real estate portfolio and public real estate portfolio, respectively, provided that the real estate portfolio maintains an acceptable level of risk.

The Real Estate Investment portfolio shall be measured utilizing an internal rate of return (“IRR”), multiple of invested equity, and a time-weighted rate of return calculations.

It is expected that the Real Estate Investment portfolio will employ multiple strategies. Some real estate investments will have dual investment objectives of capital appreciation and income generation, while other real estate investments may focus primarily on income generation. Other real estate investments may not provide any meaningful predictable cash flow and will be dependent upon non-recurring events, such as the disposition of assets, to generate realized capital appreciation returns.

Each investment in the Real Estate portfolio will be assigned to one of the following Total Fund thematic asset classes: high growth, growth, or inflation. The purpose of bucketing the Real Estate portfolio into different thematic asset classes is to better align the role of each investment with the objective of the respective thematic asset class. It is expected that each investment in the Real Estate portfolio will adhere to the same objective as the thematic asset class to which it has been assigned.



## **APPENDIX C: PRIVATE EQUITY PORTFOLIO INVESTMENT GUIDELINES**

### 1. Objective

The Discretionary Consultant will develop and maintain a private equity portfolio that will seek to generate attractive risk adjusted returns.

### 2. Benchmark

The Fund's public benchmark for private equity is the Wilshire 5000, plus 300 basis points.

### 3. Investment Guidelines

#### A. Private Equity Allocation Target

The Discretionary Consultant will manage the private equity portfolio in a reasonable manner to reach and maintain the Fund's targeted private equity allocation. The Fund is working towards the targeted allocation and expects to do so in a reasonable and disciplined manner over time.

#### B. Eligible Investments

The portfolio will be comprised of interests in pooled investment vehicles (typically limited partnerships) covering the broad spectrum of private equity investments including:

- Corporate Finance / Buyout
- Special Situations (including Mezzanine, Distressed Debt and Secondaries)
- Venture Capital (including Multi-stage, Early, Late and Growth)

On behalf of the portfolio, the Discretionary Consultant may acquire a portion of the interests in the secondary market from original investors who seek liquidity prior to the scheduled maturity of the partnership investment.

The Discretionary Consultant may not invest in the following areas:

- Real Estate focused funds

The Discretionary Consultant will not invest the portfolio in any partnership managed by or affiliated with the Discretionary Consultant without the prior consent of the Fund.

The Discretionary Consultant will keep the Fund's Investment Staff apprised of all potential and current investments in the private equity portfolio.

Fund's Legal Requirements. Due to the unique nature of private equity investments, all private equity entry documents and any accompanying side letters will be reviewed by the General Counsel to determine if the entry documents are sufficient for the Fund's legal requirements and needs. A private equity investment may not be made if certain legal requirements cannot be satisfied and the Fund is not willing to assume the legal exposure.

### C. Investment Categories

The Discretionary Consultant will seek to prudently diversify the portfolio across sub-sectors, in keeping with the broad ranges as outlined below. As the Fund rebalances the portfolio, the Discretionary Consultant will work towards compliance with these targeted ranges over the long-term.

<u>Sub-Sector</u>	<u>Target Range</u>
Corporate Finance/Buyout	40% - 80%
Special Situations	10% - 40%
Venture Capital	5% - 20%

### D. Geographic Focus

The Discretionary Consultant will seek to build a geographically diverse portfolio by investing in partnerships globally. The broad geographic diversification limits are set forth below:

<u>Geography</u>	<u>Target Range</u>
North America	40% - 80%
Western Europe	20% - 50%
Asia/Rest of World	5% - 20%

### E. Exposure Limits

Single Partnership:

- Minimum commitment of \$5 million
- Maximum commitment of \$25 million
- Maximum exposure of 20% of partnership's total commitments
- Maximum of 40% of total annual commitments to any one partnership

Commitments outside these ranges are permitted with prior Fund approval.

### 4. Annual Plan

The Discretionary Consultant will maintain an Annual Plan, which will be reviewed and updated each year, as appropriate. The Annual Plan reviews the Fund's progress towards reaching and/or maintaining the private equity allocation target. The Annual Plan also outlines the annual commitment pace and may provide detailed sub-sector and geographic targets, as well as any other relevant portfolio developments or information deemed necessary.

The Annual Plan will be reviewed with and approved by the Fund's Investment Staff each year, as part of the annual strategic planning process.

## **APPENDIX D: ABSOLUTE RETURN STRATEGY PORTFOLIO INVESTMENT GUIDELINES**

### 1. Purpose

The purpose of the Fund's Absolute Return Strategy Program ("Program") is to provide general guidelines to assist the Advisory Consultant(s) retained by the Fund and the Investment Staff in carrying out the goals and objectives set forth herein.

This document outlines policies to be used in the evaluation of the Fund's investments in the Program Strategies, as defined below, and in the identification and selection of Program Managers.

The Program is designed to enable the Fund to achieve the highest competitive risk-adjusted returns. Recognizing that capital markets change over time, this document will be revised and updated periodically to reflect these changes. Amendments to the Program must be approved by the Board.

Each Fund/Manager in the Program will be assigned to one of the following Total Fund thematic asset classes: high growth, growth, or diversification. The purpose of bucketing the Program into different thematic asset classes is to better align the role of each Fund/Manager with the objective of the respective thematic asset class.

### 2. Definitions

Program Strategies - Program strategies differ from traditional investment strategies in that the former derive a particular return from the skill of the Program Manager, whereas the latter derive a return that captures a risk premium associated with a particular asset class/sub-class (e.g. Domestic Large Cap Equities). While there are many different Program strategies available, the Fund categorizes the various Program strategies into four broad classes defined below (section 3).

Program Fund - any commingled investment vehicle organized to implement the Program Strategies of a Program Manager. Such commingled vehicle may be organized as either a US-based or foreign-based limited liability vehicle such as a Limited Partnership (LP), Limited Liability Company (LLC), Public Limited Company (PLC), Corporation, etc.

Program Manager - any company or individual which, by contractual agreement, the Fund allocates capital to be invested in Program Strategies. The capital invested in Program Strategies will typically be invested via a commingled fund investment structure, but may also be invested via a separate or managed account. The Fund shall not retain authority over the particular investment decisions of individual managers.

### 3. Program Strategy Classes

The Program will be composed of strategies broadly grouped into four categories, as follows:

#### A. Relative Value Strategies

Relative Value strategies seek to earn excess returns by identifying mispricing in particular securities without taking broad asset class directional risk, i.e. “market risk”. Representative strategies would include convertible arbitrage, fixed income arbitrage and equity market neutral strategies.

B. Event Driven Strategies

Event Driven strategies identify securities that can benefit from extraordinary transactions or events such as restructurings, takeovers, mergers, spin-offs, and bankruptcies. Representative strategies would include merger arbitrage and distressed investing.

C. Long/Short Equity Strategies

Long/Short Equity strategies attempt to earn excess returns through selected net market exposures, long or short, and security selection. Representative strategies would include regional and global long/short and sector specialists.

D. Opportunistic and Directional Strategies

Such strategies include shifting from directionally biased to non-directionally biased portfolios. Representative strategies would include Global Tactical Asset Allocation (GTAA), CTA and Global Macro.

It is expected that the Fund will access and diversify among these strategies directly and through multi-strategy fund vehicles employing a combination of strategies across the classes.

4. Goals and Objectives

A. General

The Program is composed of diverse alternative strategies which are intended to contribute to long-term investment performance, diversify the broad asset class base of the portfolio and reduce overall portfolio volatility. It is expected that the Program will produce excess returns or alpha compared to a cash benchmark and that the Program will compare favorably to returns earned from tactical alternatives to direct implementation. It is expected that each Fund/Manager in the Program will adhere to the same objective as the thematic asset class to which it has been assigned. The Program should also have constrained moderate exposure to equity and bonds.

The Advisory Consultant, with input from Investment Staff, is to maintain flexibility in creating the Program in order to capitalize on changes in the markets and newer, emerging opportunities. The Fund Investment Staff will control allocations to Program strategies, styles, managers and Program Funds, according to a rebalancing discipline (see below) taking into account current conditions and anticipated changes in the markets.

B. Diversification

It is expected that the Program investments will be diversified, as possible, by strategy, style, manager type, as well as geographic and economic regions, in order to avoid undue concentration in any one category or exposure. However, in constructing the portfolio, consideration will also be given to minimizing the potential impact on the Program of cyclical changes in the economy and capital markets.

#### C. Risk Management

The Advisory Consultant and Investment Staff will emphasize the evaluation of risk and return in the analysis of appropriate Program strategies and the managers of such strategies.

Portfolio performance and composition will be monitored and managed such that additional active strategies may be implemented and/or existing strategies terminated from time to time in order to improve the overall risk-adjusted performance of the Program.

The Advisory Consultant will recognize the role of manager selection in creating risk in the Program and shall perform due diligence in making initial selections.

#### D. Liquidity Management

The Program will not generally be considered as a short term liquidity source. However investment guidelines may stipulate certain criteria in relation to the liquidity profile.

#### E. Rebalancing

The Advisory Consultant and Investment Staff will regularly monitor the strategy exposures, manager weightings and net systematic exposures of the Program. A rebalancing of the Program is dependent upon current market conditions and expectations for the future and is therefore fundamentally discretionary.

### 5. Responsibility of the Advisory Consultant

The Board may retain an Advisory Consultant to assist the Investment Staff with the investments in the Program Strategies. The Advisory Consultant shall perform the functions and duties as set forth in the contractual agreement with the Fund. Such duties may include, but are not limited to:

- Recommending strategic and tactical allocation ranges to implement the Program Strategies approved by the Board;
- Initial due diligence on Program Funds identified by the Investment Staff or the Advisory Consultant for potential investment;
- Recommending underlying Program Funds following such due diligence;
- Risk evaluation and portfolio risk exposure reporting on potential and existing Program Funds;
- The monitoring of qualitative information relevant to the markets, the managers or the funds of the Program;
- The monitoring of existing investments in Program Strategies through continued due

- diligence and/or other means; and
- Assistance with any and all performance and other reporting required or requested by the Fund.

#### 6. Program Strategic Guidelines

The Advisory Consultant, with assistance from Investment Staff, shall formulate Strategic Guidelines setting forth the objectives of the Program with respect to annualized return, risk, and diversification. These guidelines will include broad target ranges for the allocations to the four strategy classes. The Strategic Guidelines will be approved by the Board. The Advisory Consultant and Investment Staff may, from time to time, recommend revisions to the Strategic Guidelines based upon an evaluation of existing and emerging market conditions and expectations for performance.

#### 7. Program Annual Tactical Plan

With the assistance of the Advisory Consultant, Investment Staff shall formulate an annual work plan aimed at achieving program objectives (the “Tactical Plan”). This plan is an implementation vehicle and will be presented to the Board.

The objectives for the Program form the basis for annual tactical allocations among Program funds. The allocations in the Tactical Plan shall consist of percentage allotments, within the Strategic Guideline ranges, to each of the four strategy classes. Acceptable ranges will be specified around each tactical allocation. The Advisory Consultant and Investment Staff will consider performance expectations, compliance with guidelines and anticipated market conditions in determining the optimal allocations to each Strategy for the current period.

The actual allocation to a Strategy may deviate from the targeted range as a result of changes in investment circumstances and performance. Investment Staff shall review such deviations and determine whether the current weighting is advantageous or the allocation needs to be adjusted to target.

#### 8. Program Fund Selection

The Advisory Consultant shall screen the relevant universe of Program Funds for potential investments, creating a list of such candidates for due diligence. The Advisory Consultant shall perform due diligence on candidate Program Funds with assistance from the Investment Staff, and the Advisory Consultant and Investment Staff will provide the Board with a finalist candidate for investment. The Advisory Consultant will provide Investment Staff with appropriate documentation reflecting the Advisory Consultant’s due diligence with respect to each finalist Program Fund.

In recommending an approved candidate to the Board, the Advisory Consultant, with assistance from Investment Staff, will provide the Board with a summary of the due diligence materials and recommendations prepared by Investment Staff and the Advisory Consultant. The Fund’s legal counsel shall review the potential investment for compliance with the laws, statutes, rules and regulations governing the Fund. The Fund’s legal counsel

shall examine all the Program Fund's offering documents, subscription agreement and side letter agreements, if any.

The Board will review and evaluate all materials provided by the Advisory Consultant and Investment Staff regarding a recommended Program Fund and will approve the appointment of the Program Fund subject to this review.

Investment Staff will negotiate the terms of the investment to be undertaken.

#### 9. Program Monitoring

Investment Staff will meet on-site with all current Program Funds on an "as needed" basis. Investment Staff will update its due diligence reports as a result of these meetings. Accordingly, Investment Staff shall review the Program Fund regarding the monitoring, controls, and procedures employed to limit the risks associated with the particular strategy. Following such visit, Investment Staff shall prepare a written report to the Board highlighting the Program Fund's performance and any changes in strategy, organization or investment outlook since the investment was approved. Investment Staff will also discuss investment performance and other issues with each Program Fund periodically via telephone during the course of the year. These conversations will be appropriately documented. Adverse developments within a Program Fund will be communicated to the Board promptly along with Investment Staff and the Advisory Consultant recommendations for corrective action.

The Advisory Consultant shall perform on-site visits on each existing Program Fund on an annual basis at least. The Advisory Consultant shall provide a detailed written report on the outcome of the due diligence meeting to Investment Staff within a reasonable time frame following the due diligence visit. The Advisory Consultant shall also provide written quarterly reports on each current Program Fund. These quarterly reports will include information on the aggregate performance of the Program Strategies in which the Fund is invested, individual performance for each Program Fund, the current economic environment impacting Program Strategies, economic forecast and outlook for the particular strategies, and any recommendations for specific action.

Each Program Fund shall provide the following reports to Investment Staff and the Advisory Consultant in connection with the investments made by the Fund in the particular investment vehicle:

- A. Monthly Net Asset Value (NAV) for the investment reflecting the number of units held by the Fund and the value of such units;
- B. Open Protocol Report provided to Advisory Consultant and the Fund;
- C. Performance Letter - on at least a semi-annual basis -- the Program Fund must provide a letter that discusses the performance of the Fund's investment during the preceding months;
- D. Annual Audited Financial Statements for the investment; and
- E. Report, in a timely manner, on material developments in the Program Fund which may impact the Fund's relationship and/or investment performance. Examples of such material impacts might include, but are not limited to, regulatory actions and investigations, loss of key investment personnel and other executive personnel

including personnel responsible for finances of the organization, changes in ownership structure, changes in investment processes, unusual client losses in type or magnitude, involvement in “incompatible” activities, changes in the direct investments of Principals, and changes in compensation structure or changes in the estimated capacity for the particular strategy or strategies.

A Program Fund that does not provide the required reports set forth shall be subject to redemption.

#### 10. Termination of a Program Fund

Based upon information gathered regarding a particular Program Fund, Investment Staff and the Advisory Consultant may determine that the investment is no longer appropriate for the Program. Termination may be indicated by shortfalls in any material item as listed in 9 above or by unusual style drift, underperformance or excessive draw-downs, or other analytical considerations with respect to the strategy or Fund. Investment Staff and the Advisory Consultant shall provide the board with a written analysis supporting termination in a timely manner.

#### 11. Program Watch List (Watch List)

Whilst not an absolute requirement, prior to termination a Program Fund may be put on a ‘Watch List.’ A Fund may be added to the Watch List for shortfalls in any material item as listed in 9 above or by unusual style drift, underperformance or excessive drawdowns, or other analytical considerations with respect to the strategy or Fund. In such cases, Investment Staff will document the reasons for concern. Such funds will receive greater scrutiny which may at Investment Staff’s discretion include requests for further information, conference calls and onsite visits with the manager. A manager may stay on the Watch List for any period of time until the documented reasons for concern have been reconciled or corrected or the Fund is terminated.

#### 12. Program Strategies: Scheduled Reports

##### Performance Benchmarks

The performance of individual Program Funds may be benchmarked against a series of benchmarks including cash benchmarks (i.e. T-Bills or LIBOR), selected market indexes, as indicated, and, where appropriate, a style index (e.g. HFRI Equity Market Neutral Index.)

##### Performance Reporting

Each quarter, the Advisory Consultant, in collaboration with Investment Staff, will prepare a report that compares the performance of the Program Funds against the benchmarks for the preceding quarter, year-to-date and annualized periods. The report shall provide the current allocation to each strategy and to each Program Fund. The report will also provide a synopsis of the performance of each active Program Fund and a list of Program Funds currently schedule for subscription or redemption, if any, as well as such subscription/redemption activity in the preceding quarter.



## **APPENDIX E: FUND ASSET CLASS GUIDELINES**

### **Fund Asset Class Guidelines**

Following are general guidelines and objectives established for the Fund asset classes and for each Manager retained by the Board. Individual Manager guidelines are designed to be consistent, in aggregate, with the Total Fund asset allocation guidelines and investment objectives set forth in this Policy. Each Manager will operate under a formal contract that delineates its responsibilities and appropriate performance expectations, and that includes a formal set of investment guidelines and administrative requirements for management of each portfolio.

#### **A. Domestic Equity**

Each equity Manager is expected to adhere to the following general guidelines:

- Equity holdings in any one company (including common and preferred stock, convertible securities and debt) should not exceed ten (10%) of the market value of the manager's allocation without the consent of the Trustees.
- Equity holdings in any one industry (as defined by manager's respective style and capitalization benchmark) should not exceed fifty percent (50%) of the market value of the manager's allocation. **The exception to this policy is any sector specific strategy approved by the Board.**
- Cash and cash equivalents should not exceed ten percent (10%) of the Manager's allocation of assets.
- No purchase shall be made by Manager which would cause a holding to exceed 5% of the issue outstanding.

#### **B. International Equity**

Each international equity Manager is expected to adhere to the following minimum guidelines:

- Equity holdings in any one company and all of its subsidiaries and affiliates (including equities, convertible securities and debt) should not exceed ten percent (10%) of the market value of the manager's allocation without the prior written consent of the Trustees.
- Equity holdings in any one industry should not exceed fifty percent (50%) of the market value of the Manager's allocation. **The exception to this policy is any sector specific strategy approved by the Board.**
- Cash and cash equivalents should not exceed ten percent (10%) of the Manager's allocation.

- The Manager may enter into foreign exchange contracts on currency provided that: (a) such contracts have a maturity of one year or less, and (b) use of such contracts is limited solely and exclusively to hedging currency exposure existing within the Manager's portfolio. The intent is to dampen portfolio volatility and prevent currency loss. There shall be no direct foreign currency speculation or any related investment activity.
- The Manager may purchase or sell currency on a spot basis to accommodate specific securities settlements.

**C. Fixed Income**

Each fixed income Manager is expected to adhere to the following guidelines:

- The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the Manager.
- The exposure of each Manager's portfolio to any single security other than a security backed by the full faith and credit of the U.S. Government or any of its instrumentalities should be limited to 10% of the Manager's allocation measured at market value.
- No purchase shall be made by a fixed income Manager which would cause a holding, excepting securities backed by the full faith and credit of the U.S. Government or any of its instrumentalities, to exceed 5% of the issue outstanding.
- Futures, and options, and/or swaps are permitted for purposes of managing duration, yield curve, and sector risk, and as a substitute for cash securities.
- Not more than 5% of a Manager's portfolio, valued at market, shall be invested in certificates of deposit, time deposits, bankers acceptances, commercial paper, or related investments of a single issuer financial institution or financial institution holding company family.
- Managers may enter into currency forward contracts with counterparties that have a short-term credit rating of at least A-1 or P-1. Managers may enter into netting agreements with these counterparties.
- Counterparties for other OTC derivatives (e.g., swaps and repos) must have a long-term rating from S&P of at least BBB.

**D. Cash and Equivalents**

Although Managers will be retained for their expertise in a certain investment segment, it is expected that from time-to-time each will have some cash and equivalents in their portfolios as a result of discretionary asset allocation decisions. Any idle cash not invested by the Managers shall be invested daily via an automatic

sweep STIF managed by the custodian. It is the Fund's objective to have no idle cash at any time in any Manager's portfolio.

**E. Pooled Vehicles**

The Trustees may invest a portion of the Fund's assets in commingled vehicles or institutional mutual funds if those investments are invested substantially in a manner consistent with the guidelines stated within this Policy. However, the Trustees recognize that such investments will be ultimately governed by the vehicle's established guidelines and restrictions, as outlined in the prospectus, subscription agreements, or other offering documents prepared by the investment manager.

## **APPENDIX F: INVESTMENT MANAGER TRANSITIONS**

In the event of the need to perform transition management activities (including, but not limited to, the transfer of the management of assets from one investment management firm to another, exposure management during funding or de-funding of an investment management mandate, or the like), Investment Staff, with advice from the General Consultant, will determine the most efficient and prudent manner to perform such transition, including determining whether to use a Transition Manager, the legacy Investment Manager(s) or the target Investment Manager(s) to effect the contemplated asset restructuring.

1. If it is determined the Fund will use a Transition Manager, Investment Staff will select a Transition Manager from the Board's pre-approved list of Transition Managers after review of pre-trade analysis submitted by the Transition Managers, as well as each Transition Manager's pre-trade fee estimate and expertise for the asset class(es) to be transitioned.
2. Investment Staff is authorized to engage a Transition Manager on the Board's pre-approved list of Transition Managers under the terms of a master agreement executed with each Transition Manager.
3. Following the completion of each transition event, Investment Staff will report to the Board on the results of the selection process, the estimated costs of the transition, and the actual costs of the transition.
4. On a periodic and as-needed basis, Investment Staff and General Consultant will provide analysis and a written opinion to the Board as to the status of the Board's preapproved list of Transition Managers, the qualifications and performance of its members, and other relevant information.

## **APPENDIX G: SECURITIES LENDING**

### **A. Objective**

The objective of the securities lending program is to generate incremental income from overnight and certain term loans of securities in the portfolio, subject to guidelines described herein, utilizing a high-quality and reasonably conservative cash collateral re-investment program that safeguards the return of principal and maintains adequate daily liquidity to support trade settlement activity and portfolio restructuring activities.

### **B. Lending Agent**

The Fund may contract with a securities lending agent (“the Agent”) to establish, manage and administer a securities lending program. The Agent or its parent organization must be experienced in the operation of a fully secured securities lending program. The Agent facilitates lending the Fund’s domestic and international equity and fixed income securities in return for collateral consisting of cash, U.S. government securities and irrevocable letters of credit issued by banks independent of the borrower.

### **C. Program Guidelines**

#### **1. Collateralization and Eligible Collateral**

Cash collateral is to be invested in government securities, bank and corporate notes, bank certificates of deposit, time deposits, bankers’ acceptances, repurchase agreements, commercial paper and asset backed securities. The contract with the Agent specifies guidelines for allowable investments, maturities, and diversification. The Fund does not have the ability to pledge or sell collateral securities without borrower default. The Agent will collect and maintain proper overcollateralization as follows:


- a. Domestic (United States domiciled and Non-US domiciled issued in US dollars) securities: Initial Margin of 102%
- b. International (non-United States domiciled) securities: Initial Margin of 105%

#### **2. Cash Collateral Reinvestment Guidelines**

Cash collateral may be reinvested through a pooled fund managed by the Agent or through a separately managed account structure. Investment Staff will evaluate and may recommend the use of a commingled pool considering the benefits of liquidity that a pool structure offers in conjunction with its investment objectives, guidelines, restrictions, and strategy. Such analysis will also consider transparency of the investment process and internal controls.

**FORT WORTH EMPLOYEES' RETIREMENT FUND  
STATEMENT OF INVESTMENT OBJECTIVES AND GUIDELINES**

**Approval:**

  
Board Chairman

January 24, 2018  
Date