MASTER STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

OF THE

FIREMEN'S RELIEF and RETIREMENT FUND

OF

LUFKIN, TEXAS

Effective: February 18 2015

THE MASTER STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES OF THE FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS

Introduction—This document is the official policy governing the investment practices of the Firemen's Relief & Retirement Fund of Lufkin ("Fund") and is subject to the Texas Local Firefighter's Retirement Act as revised by Senate Bill 930 in the 74th Legislature Regular Session in 1995 (TLFFRA). Under this act a Board of Trustees has been established that has authority for supervision of these funds. The policies in this document have been adopted by the Fund's Board of Trustees (the "Board"), which has the fiduciary duty of overseeing the Fund's investments. The policies are not to be deviated from without the prior written permission of the Board.

The Board has authority to hire investment managers, custodians, actuaries and consultants to provide professional assistance in achieving the fund's objectives.

The duties of the Trustees, approved delegations to investment managers and other fiduciaries, prohibited transactions, authorized transactions, and liability for breach of fiduciary duties are all set forth in SB930, Revised in 1995. It is intended that this statement is in compliance with TLFFRA.

The Fund is to be managed with that care, skill, prudence, and diligence that a prudent person familiar with such matters would use in like circumstances, i.e., it is to be managed under prudent person provisions.

The Board has the authority to hire investment managers as provided in Section 28(a) of SB930. This Master Statement communicates policies regarding the current asset allocation strategies of the Fund and the duties and obligations of investment managers. Investment managers, once chosen, will be retained as long as the Board determines that the investment philosophy utilized and returns realized are appropriate for the long-term needs of the Fund. Investment managers must manage the Fund's assets according to their stated investment philosophies as presented to the Board. No deviation from stated philosophy is authorized unless first discussed with the Board and its consultants, and written approval for such deviation from the Board is issued.

Goals and Objectives – It is assumed that pension funds will have a permanent life and that it is important to protect the principal and purchasing power of these funds. It is also assumed that some inflation will continue, thus the need to maximize the total return of the Fund's investment portfolio. These assumptions call for an above-average investment performance while maintaining a prudent and reasonable risk level. It is anticipated that the return results for various asset classes will fluctuate and that each asset class will be impacted differently by changes in the economic environment. As an example, it is within the reasonable risk level that in times of economic recessions the equity markets will have negative returns. During the same timeframe, it is reasonably expected that certain fixed-income securities will experience market value increases. The Board recognizes that maintaining a disciplined strategy of diversification through targeted asset allocation will help mitigate return volatility. As long as the funds are invested in diversified portfolios, short-term negative returns are acceptable.

A primary goal is to provide a reasonably stable, predictable and increasing fund income each year so that a balanced budget can be maintained. The Fund will seek to maintain an appropriate asset allocation to minimize, as much as possible, the volatility of investment returns.

Performance goals will be established for each asset class authorized by the Board and will be evaluated on an annualized, net-of-fees basis for comparison to the appropriate benchmark.

The Board has developed a policy of maintaining a three-month reserve of monthly benefit payouts.

The Board believes that a minimum net return of 7.50%* and gross return of 9.50% average per year over a 2 year period for the total fund is necessary to prevent unfunded liabilities and, ultimately, to develop a surplus. The Fund anticipates that a net compounded return of 2.0% above the existing actuarial assumption of 7.50%*, when combined with contributions, will achieve its objective. These assumptions are the goal of the Board and are not a mandate to the investment managers.

I. Investment Advisors and Managers

To fulfill the Board's objective of effectively managing the financial assets of the Fund, the Board will contract with professional investment advisors and/or managers. Investment advisors and/or managers are selected from strongly established and financially sound organizations that have a proven and demonstrable record of experience in managing long-term money. The investment portfolio is diversified to provide reasonable assurances that no single security (investment) or class of securities (asset class) has a disproportionate or significant impact on the total portfolio. Contracts with each investment advisor and/or manager will stipulate the composition and asset diversification to which that advisor/manager must adhere. The Board will consider the cost-effectiveness of the decision involving the number of investment advisors/managers with which to contract. The number of investment advisors/managers under contract will be the minimum number required to effectively diversify according to the approved asset classes and from time to time the Board may determine that the most cost effective decision would be to invest in mutual funds in order to diversify with the least number of investment advisors/managers involved.

Diversification of the portfolio through asset allocation is established by this Policy and any deviation must be formally approved by the Board prior to the execution of any trade that would violate the allocation objective. In the case where an investment transaction causes an unintended allocation violation, the investment advisor/manager must take immediate prudent action to resolve the situation and must report the violation and resolution to the Board within two business days.

From time to time, the Board may contract with professional investment consultants to perform duties related to developing investment policy, asset allocation, selection of investment advisors and other non-transactional advice.

In the course of its duties, the Investment Advisor is given authority to oversee the performance of the investment managers or mutual funds and to report to the Board the managers' activities and the effectiveness of their management relative to established benchmarks.

II. FIDUCIARY CONDUCT

An investment fiduciary includes, but is not limited to, a person who exercises discretionary authority or control in the investment of the assets of the Fund or who renders, for a fee, advice for the Fund. The term investment fiduciary includes, but is not limited to, the members of the Board, the Fund/City staff, the investment consultant, investment managers and bank custodians.

An investment fiduciary shall discharge his or her duties exclusively in the interest of the beneficiaries of the Fund and shall:

1. Act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
2. Act with due regard for the management reputation, and stability of the issuer and the character of the particular investments being considered;
3. Make investments for the sole purpose of providing for the educational funding objectives developed by the Board and of defraying reasonable expenses of supervising, safeguarding and investing the assets of the Fund; and
4. Give appropriate consideration to those facts and circumstances that an investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role which the investment or investment course of action plays in that portion of the investments for which an investment fiduciary has responsibility. For purposes of this subdivision, "appropriate consideration" shall include, but is not necessarily limited to, a determination by an investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the Fund, to further the purposes of the Fund, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action. The Board shall give consideration of the following factors as they relate to the total Fund's investment course of action:
    a. the diversification of the investments of the Fund;
    b. the liquidity and current return of the investment of the Fund relative to the anticipated cash flow requirements of the Fund; and
    c. the projected return of the investments of the Fund relative to the funding objectives of the Fund.

5. Act in accordance with these guidelines and all applicable policies, laws and statutes.

III INVESTMENT RESPONSIBILITY

Board of Trustees

The Board of Trustees has the fiduciary responsibility for managing the investment process. In fulfilling this responsibility, the Board will establish and maintain investment policies and objectives. Within this framework, the Board will select, contract with, monitor and evaluate the investment consultant, investment managers, bank custodian and other parties to ensure that actual results meet objectives.

Investment Committee

The Investment Committee is established in accordance with TLFFRA and Committee members are appointed by the Board of Trustees. The Committee shall interview, screen and recommend outside investment-related service providers to the Board. The Committee, within the framework of guidelines set by the Board, shall have direct responsibility for the oversight and management of the Fund's investment assets. Should investment consultants be engaged, the Committee shall meet quarterly with the investment consultants to review and understand the investment performance of the portfolio's assets and to recommend changes to the Board that the review indicates, as necessary. The Committee will meet with the investment advisors of the Fund as necessary or at least annually.

Investment Advisor

The investment advisor's duty is to render competent, professional advice and assistance and to work with the Board with respect to the investment process. This includes meeting regularly with the Board to provide perspective as to the Fund's goals, structure and the investment management team as well as the progress being made in fulfilling each. The advisor will advise, consult and work with the Board to develop and maintain a properly diversified portfolio.

The investment advisor will perform its duties and obligations to the Board in conformance with generally accepted industry standards, and its contract with the Fund.

Fund allocation and performance will be regularly reviewed and recommendations will be made as appropriate. The advisor will assist the Board in investment manager selection, when needed, and will promptly inform the Board and discuss the impact of material changes taking place within any current manager's organization and/or investment process. Within this process, the investment advisor assumes fiduciary responsibility for advice given regarding the management of the investment process.

Investment Managers

The investment managers will construct and manage investment portfolios consistent with the investment philosophy and disciplines they were hired to implement and which are specified in this document and in the respective investment manager agreement they execute with the Fund. Investment managers will select specific securities or funds, buy and sell such securities/funds and manage the investment portfolio within the terms, provisions and requirements set forth in the investment policies, the applicable local, state and federal laws and the investment manager agreement. Full discretion is delegated to the investment managers to carry out the investment of the respective portfolios within stated guidelines.

Each investment manager is expected not only to maintain a consistent philosophy and style, but also to perform well versus others utilizing the same style and to add incremental value after costs.

Each investment manager will be responsible for preparing a quarterly report on the performance of the portfolio, including comparative returns of their respective benchmark. The quarterly report will contain a complete accounting of all transactions involving the portfolio during the quarter, the beginning and ending market values of each position, detail of gains/losses and income for the portfolio.

Bank Custodian(s)
The bank custodian(s) will hold all cash and securities and will value the securities monthly, list and summarize these holdings for the Board's review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment manager and to invest such cash in liquid, interest-bearing instruments.

IV. INVESTMENT PROGRAM GUIDELINES

AUTHORIZED INVESTMENTS

The Fund's portfolio will be diversified both by asset class and within asset classes. Within each asset class, securities will be diversified among economic sector, industry, quality and size. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the performance of the total fund.

Cash and Equivalent Securities
The investment advisors/managers may invest in the highest quality commercial paper, repurchase agreements, U.S. Treasury obligations, bank certificates of deposit and money market funds to provide income, and liquidity for expense payments or other distributions.

Investment advisors/managers should keep cash and equivalents to a minimum since short-term, cash equivalent securities are usually not considered an appropriate investment vehicle for long-term strategies. However, such investments are appropriate as a depository for income distributions from longer-term investments or as needed for temporary placement of funds directed for future investment to the longer-term capital markets.

Funds segregated to cover short-term operating needs of the Fund will be held in money market or other cash equivalent positions authorized by the Board.

Equity Securities
The purpose of equity investments, both domestic and international, in the portfolio is to provide capital appreciation, growth of income and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return objectives. This component includes domestic and

international common stocks, American Depository Receipts (ADR), preferred stocks and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Equity securities shall generally be restricted to high-quality, readily marketable securities of corporations that are traded on the major stock exchanges and have the potential for meeting return targets. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of their respective asset class profile with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to the investment advisor's/manager's discretion, subject to the standards of fiduciary prudence and the limitations set forth in this Policy.

Fixed Income Securities

Domestic and international fixed income investments provide diversification and a dependable source of current income. Diversification within fixed income investments will be allocated among maturities of different lengths according to interest rate prospects and the goals of the Fund. Fixed income instruments should reduce the overall volatility of the Fund's assets, and prove a deflation or inflation hedge, where appropriate.

Fixed income includes, but is not limited to, U.S. Treasury and government agency obligations, public and private corporate debt mortgages and asset-backed securities and non-investment grade debt. Fixed income also includes money market instruments, including but not limited to, commercial paper, certificates of deposit, time deposits, banker's acceptances and repurchase agreements. The investment advisor/manager must take into account credit quality, sector, duration, and issuer concentrations in selecting an appropriate mix of fixed income securities. Private placement bonds are not permitted.

Real Estate

Investments may include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investment may be made only through professionally managed, pooled real estate investment trusts (REIT), as offered by leading real estate managers with proven track records.

Mutual or Commingled Funds

Any investment that is made in a mutual fund and/or commingled fund will be reviewed and approved by the Board, unless it is selected by an investment advisor under contract to make such decisions. It is understood that for mutual and other commingled funds, the prospectus or Declaration of Trust documents of the fund will govern the investment guidelines and allocation limitations of the fund investments and will take precedence over this Policy. It is appropriate however for the investment advisor to select funds that have guidelines that are similar in nature to those authorized in this Policy governing credit quality and risk profiles.

Investment Pools

Local Government Investment Pools operating in compliance with the Texas Public Funds Investment Act, Section 2256.00.016 and 2256.019, including Commercial Paper.

V. Objectives of Plan Asset Allocation

Asset Allocation

The asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Fund's investment portfolio consistent with market conditions. Due to fluctuation of market values, allocations within a specified range constitute compliance within the policies. An extended period of time may be required to fully implement the asset allocation plan and periodic revisions will be required. The policy will include a targeted allocation table to be authorized to include all funds not segregated to provide for normal operating expenses and projected cash needs. Such segregated funds will not be in excessive amounts and will be periodically monitored to ensure that all available funds are invested as effectively as possible.

The Fund's Asset Allocation strategy is based on long-term investment expectations balanced by annual benefit and cash expenditure requirements. The Fund believes its expectations can be met by reasoned diversification among asset classes.
Strategic Benchmark Allocation – Long term, total portfolio, and strategic benchmark index should be a combination of these indices:

	TARGET ALLOCATION (At market)	TARGET RANGE (At market)
Equity Securities	60%	50%-70%
Income Securities	40%	30% - 50%
Cash Equivalents	0%	0%-10%

Asset Class Table	Target Weighting	Benchmark Index
Domestic Equities – Large Cap	20.0%	Russell 1000
Domestic Equities – Mid Cap	20.0%	Russell Mid-Cap
Domestic Equities – Small Cap	7.5%	Russell 2000
Domestic Real Estate	5.0%	NCREIF
International Equities	7.5%	MSCI- EAFE
Fixed Income	32.5%	Barclays Gov/Corp
International Fixed Income	5.0%	Barclays Capital Global Aggregate
Cash & Equivalents	2.5%	90-day Treasury Bill

Investment Consultant performance will be based upon target weighting table.

A maximum of 70.0% of Fund assets may be allocated to equity investments.

This asset allocation decision was based on an evaluation of a variety of asset allocation mixes and review of SB930. It was determined that the Fund should achieve a higher overall rate of return while experiencing an acceptable volatility by such combination.

The performance of the investment advisor's management of funds/managers will be benchmarked and compared against the performance of a blended index. The blend will be an aggregate of all of the individual indices identified in the Asset Class Table and weighted according to the "Target Weighting" column.

FIXED INCOME - The Fixed Income portion of the Fund concentrates on a total return approach. Fixed income portfolio managers must consider the following risks:

> Interest rate risk — the impact of changing interest rates on principal in a long-term fixed income investment.
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> Reinvestment risk — the risk that coupon payments from fixed income investments may not be reinvested at the same or higher rate.
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> Default or credit risk — the risk that the bond may not make its interest payments on time or that it may be downgraded in its quality rating, resulting in decreased principal value.
>
> Real Return (inflation) - The impact of inflation on the principal value of a fixed income investment.
>
> Call risk — the risk that the issuer may call the bond, denying the pool the number of year's income originally anticipated. Managers are expected to be sensitive to call features.

EQUITY INVESTMENTS — The purpose of equity allocations is to build sufficient assets through growth over a thirty year period, to reduce any future unfunded liability, assure payment of benefits and expenses, and to create a surplus.

The Board hires investment advisors/managers based on an evaluation of their investment philosophy, long-term performance and ability to complement existing portfolio styles. The Board in regular meetings will review the actual dollar amount and percentages of total Fund assets. Investment advisors/managers must adhere to their stated investment philosophy. Diversification of management philosophies is actively sought.

NON-US EQUITY INVESTMENTS – A maximum of 20% of total Fund assets may be allocated to non-U.S. equities. This portion of the portfolio must demonstrate consistent performance over successive market measurement periods, which, when currency adjusted to U.S. dollars, seeks to exceed the total rate of return of the MSCI-EAFE with net Dividends in US dollars Index. The securities must be readily marketable and subject to valuation by posting in U.S. exchange publications.

The combined assets of the domestic and non - U.S. equity pools will not exceed 70.0% of the total Fund.

Rebalancing

The purpose of rebalancing is to maintain the long-term asset allocation within the targeted bands in accordance with the objective of controlling portfolio risk. The asset allocation will be rebalanced within the stated ranges on no less than a calendar quarterly basis.

VIII. General investment Guidelines

In addition to SB930, the following prudent guidelines are adopted by the Board:

Liquidity — The Board requires equity managers to reinvest all dividends without consideration of total Fund cash liquidity. However all managers must invest in readily marketable securities, listed on a national securities exchange or traded on NASDAQ. The Board recognizes that although dividends will be reinvested into the portfolio, these dividends may or may not be directly invested into securities upon their receipt, should the investment manager prefer holding a certain level of cash.

Diversification — Each manager's portfolio must be diversified. According to Section 27, subparagraph C of SB930, no more than 5.0% (at cost) of the book value of the assets of the Fund may be invested in any one individual security. Additionally, the Fund may not own more than 5.0% of the voting stock of one corporation. For purposes of investment management, the book value is deemed to be cost of the security at the time of purchase. As it relates to diversification of investment styles and classes, percentages are expressed as the pro-rata amount of market value relative to the total fund size.

Preservation of Principal — Under the actuarial methods utilized, all assets are recognized at market value. The actuarial impact of realizing gains and losses will be significant in achieving the Fund's primary objective of reducing any unfounded liability, maintaining a surplus, and paying benefits.

Selling Discipline – Securities should be sold in accordance with prudent evaluation of the investments. Investment managers must follow their stated selling discipline as presented to the Board.

Voting Proxies – If designated in the Investment Management Agreement, each investment manager is required to vote all proxies for securities held for the Fund. Investment managers are required to submit to the Board and the consultant on a quarterly basis, a summary of balloting.

IX. Procedures of Performance Evaluation

As part of the ongoing diligence and review process, investment managers should provide the following for the Board to review:

On a Monthly Basis: A statement showing a summary of all transactions, deposits, withdrawals, income, the month end market value of each asset of the fund, the month end value of the fund in total, and the cost basis of the fund.

On a Quarterly Basis: A report showing (1) performance returns for the current quarter, year to date, and since inception; and (2) fully disclosed fees for the period to include investment advisory fees, investment manager fees and mutual fund fees.

On An Annual Basis: A report that will benchmark the performance of each manager or mutual fund against a valid peer group that includes managers/funds of similar discipline and size. This evaluation should be performed using an independent data source.

Other – At any time, investment managers and other professional are invited to submit comments to improve or clarify the Statement of Investment Policies.

This statement is a working document structured to accomplish long term and short term planning. Investment advisors, managers and other fiduciaries are invited to contact the Board if any questions exist about the interpretation or application of any provision.

Signature of Chairman 2-24-15 Date

Signature of Investment Manager 2-24-15 Date

This Investment Policy statement must be reviewed at least once a year and confirmed as appropriate or amended as necessary at that time.

*Approved at a Meeting of the Fund's Board on February 18, 2015.

Please address reports, correspondence and communications to:
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