EMPLOYEES' RETIREMENT FUND

FIXED INCOME ASSET CLASS INVESTMENT POLICY

I Purpose

To establish the investment policy and objectives for the investment grade fixed income segment and the high yield segment of the Employees' Retirement Fund of the City of Dallas (~~"~~the "Fund"). This policy in conjunction with the General Investment Policy (revised 7/99) allows for sufficient flexibility in the management process to capture investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the fixed income investment program.

The fixed income segment is to be managed to:

a. enhance the Fund's total return through the exploitation of market inefficiencies and disequilibriums which create risk-adjusted yield opportunities;

b. ensure better protection of shorter-term liabilities through lower volatility investments than equities which are better suited to protect longer term liabilities;

c. provide diversification to the Fund's overall investment program by investing in the domestic, non-dollar, high yield; and credit opportunities (added 9/14) markets; and

d. reduce risk through diversifying the fixed income asset investments. By including both domestic and non-dollar bonds, high yield securities, and credit opportunities (added 9/14) in an investment portfolio, the Fund can maintain a solid investment return while significantly lowering the overall portfolio risk. Besides being relatively safe, domestic bonds display low correlation relative to other asset classes. Although non-dollar bonds have a higher volatility than their US counterparts, they do display a low correlation to each other. High yield bonds display a low correlation to virtually all asset classes and except for zero coupon bonds, generate a high level of cash income thereby reducing overall portfolio volatility and helping the Fund to meet its cash needs. Credit opportunities are viewed as a separate macro asset class group resulting from the diversification benefits relative to individual asset classes. Despite higher correlations to stocks, credit products also generate higher levels of yield so sensitivity to economic growth drivers is substantially dampened offering some downside protection in stressful equity markets. In strong equity markets, credit products can benefit even if bonds are struggling (added 9/14).

II Strategic Objectives

A. Primary Objective

To achieve the highest return possible consistent with the Board's desire (1) to control asset volatility and covariance risk with assumed liabilities, and (2) to emphasize high current yield to maturity opportunities to add value through active management. This objective may require an under weighting of US Treasury issues relative to their representation in the broad, publicly-traded bond market.

B. Secondary Objectives

1. The Fund's investment grade domestic and non-dollar fixed income investments are to be actively managed to achieve a rate of return that exceeds the rate of return of the Barclays Aggregate Bond Index or other comparable index (revised 7/99) by .50% (50 basis points) net of fees.

2. The Fund's high yield segment is to be actively managed to achieve a rate of return that exceeds the rate of return of the Citigroup High Yield Cash Pay Index or other comparable index (revised 7/99, 9/14) by 1% (100 basis points) net of fees.

3. The Fund's credit opportunities investments are to be actively managed to achieve a rate of return that exceeds the rate of return of a blended benchmark which aligns with the underlying investment mix (added 9/14) by 1% (100 basis points) net of fees (added 01/16)

4. Collectively, fixed income investments are expected to preserve asset value (revised 7/99).

III Investment Approach

The investment approach shall be to identify enhanced yield opportunities across bond market segments and to invest where credit and reinvestment risks are understood and can be managed well within yield benefits.

A. The investment grade fixed income managers will manage the five major categories of fixed income risk within a global context:

a. credit risk
b. interest rate risk,
c. yield curve risk,
d. reinvestment risk, and where necessary,
e. currency risk.

Credit Risk is the uncertainty surrounding the borrower's ability to repay its obligations. Credit risk is to be actively managed, employing yield spread analysis and credit research.

Interest Rate Risk is price volatility produced by changes in the overall level of interest rates. This risk is to be managed in a controlled manner using historical real return relationships and economic analysis.

Yield Curve Risk is price changes induced by the changing slope of the yield curve. Yield curve risk is to be managed, but in a controlled, disciplined fashion, by employing duration and maturity yield spread analysis.

Reinvestment Risk is the uncertain future yield opportunities available to invest funds which become available due to call, maturity or coupon generated cash flow. Reinvestment risk is to be managed through call risk analysis, and diversification of maturities.

Currency Risk is price volatility emanating from the value of the US dollar relative to the currencies of the world when invested in non-dollar denominated fixed income instruments. Currency risk is to be hedged, if appropriate, employing currency spread and valuation analysis.

B. The high yield fixed income managers will also manage risk by diversifying their portfolios across industries and credit qualities, as outlined in the high yield manager guidelines. In addition to the types of risk outlined above, the high yield fixed income managers will also manage Default Risk. Default Risk is the possibility that the bond issuers will no longer be able to make their **(revised 7/99)** scheduled payments to the bond holders. Generally, this type of risk is minimized through disciplined credit analysis.

C. Credit opportunities managers will manage risk by diversifying their portfolios across an opportunity set that includes emerging market debt, bank loans, and distressed debt. The various types of fixed income risks will be managed as noted in A and B above (added 9/14).

IV Investment Process

A. General Strategies – Investment Grade Bonds

1. A portion of the fixed income assets are to be managed globally to add value principally through credit, valuation and interest rate level analysis.

2. A two-tier macro/micro management approach is to be used to implement the portfolio strategies. The “macro” component is to include strategic and some tactical decision processes such as the allocation among different fixed income segments. The “micro” component will address security selection within each fixed income segment utilizing credit, duration, and valuation analysis.

3. Value is to be added by purchasing bonds where the yield spread over the US Treasury yield curve is such that the risks of not realizing the promised yield spread, either from credit or call risk, do not materially reduce the expected yield benefit. Bond sales should be limited primarily to circumstances where risk can no longer be managed to levels below the yield benefits.

4. Value at the macro level is to be added through the allocation of cash flow to fixed income segments which offer the highest current yield to maturity spreads, globally, relative to their historical norms. Within policy ranges duration should be managed with cash flow by concentrating purchases along the yield curve where the yield premium is high relative to historical norms.

5. Only when value cannot be found should US Treasury issues be purchased. Under most market circumstances the fixed income segment will have a Treasury allocation well below its public market representation.

B. General Strategies – High Yield Bonds

1. The High Yield bond segment will be managed to generate strong cash flow from coupon income and capital appreciation through bonds with credit quality below investment grade (revised 7/99).

2. Issue selection will be of primary importance with in-depth credit analysis, asset strength, debenture covenants and valuation the key factors.

3. The high yield portfolios will contain predominately (revised 7/99) cash-paying securities of solvent companies. Unless specifically authorized, no payment-in-kind securities (revised 7/99) are permitted.

4. High yield portfolios shall be well-diversified across companies, industries, and sectors.

C. General Strategies – Credit Opportunities (added 9/14)

1. The credit opportunities strategy will be managed to generate strong cash flow from coupon income.

2. The flexible nature of the asset class also allows for value generation through portfolio construction decisions and capital appreciation (added 7/99) .

3. Issue selection will be of primary importance with in-depth credit analysis, asset strength, debenture covenants and valuation the key factors.

D. General Strategies – Derivatives

The use of derivatives is prohibited unless specifically authorized in a managers individual guidelines. Managers shall only be authorized to use derivatives if

they can present a written detailed derivatives investment policy that addresses at a minimum the standard of care, the back office and accounting, valuation and reconciliation procedures, monitoring procedures and permitted uses and circumstances. Further, managers shall specifically demonstrate an understanding of and processes to manage: market, credit, liquidity, cash flow, basis, legal, settlement, operational and other pertinent risks associated with the use of derivatives.

The strategic objectives of the use of derivatives is to facilitate risk management and to manage the cost of investing in publicly-traded stocks and bonds. Of the four basic strategies that can be achieved through the use of derivatives, only substitution and risk control are permitted. Arbitrage and speculation are never permitted to be used as a strategy. Any derivative transaction that results in the leveraging of the portfolio is strictly prohibited.

Derivatives can be divided into seven classes. Permitted instruments include: futures contracts; options on futures; warrants; options; currency forward contracts; swaps; and structured notes (revised 12/16)., ~~Derivatives can be divided into seven classes. Two of these classes, options on futures and warrants, are prohibited investments except warrants that are attached to securities purchased. The other five classes, futures contracts, options, currency forward contracts, swaps, and structured notes, are permitted when the manager is authorized to invest in and holds investments in the underlying cash market instrument.~~

The listing requirements for permitted derivatives are that they must be either exchange traded or traded over –the-counter.

Over-the-counter traded derivatives are subject to counter-party risk. Managers shall prepare, maintain, and review a detailed counter-party credit policy for non-exchange traded derivatives that outlines a standard of care in selecting appropriate counter-parties. Counter-party requirements are as follows:

a. counter-party creditworthiness shall be equivalent to "investment grade" of "A3" as defined by Moody's Investor Services or "A-" by Standard and Poor's. The use of counter-parties holding a split rating with one of the ratings below A3/A- is prohibited. Managers shall notify the Administrator if a counter-party is downgraded below A3/A- while an instrument held in the portfolio is outstanding with that counter-party. The use of unrated counter-parties is prohibited unless that counter-party has a written unconditional guarantee from a rated counter-party. The rated counter-party must meet the requirements listed above. (revised 01/07).

b. For non-exchange traded derivatives, individual counter-party exposure, including the Fund's master custodial bank, is limited to 33% of the notional amount of the derivative exposure of the portfolio being managed for the Fund.

c. Any entity acting as a counter-party shall be regulated in either the United States or the United Kingdom.

d. The manager shall, where applicable and enforceable, use master agreements permitting the netting of counter-party exposures to minimize credit risk.

e. Managers are prohibited from "name washing" where credit guarantees extend through to another party or parties, regardless of which party holds a higher rating.

The Board may at its discretion in terms of time and content request reports from the manager on the use of derivatives in the Fund's portfolio (revised 7/07).

V Investment Implementation

A. External Management

The Fund (revised 7/99) shall retain qualified registered money managers or those which are exempt from registration (revised 7/99) in sufficient number to diversify manager risk, being careful not to over-diversify and thereby increase cost.

B. Qualifications

The selected investment grade managers must have demonstrated expertise in all areas of investment-grade fixed income specified in their guidelines (revised 7/99), domestically and internationally, with espoused investment approaches consistent with this policy. The selected high yield managers must have demonstrated expertise in all areas of high yield fixed income specified in their guidelines with espoused investment approaches consistent with this policy (revised 7/99). Selected managers must adhere to a set of guidelines which outline the strategic role their firm is to fulfill.

Attest:

By: _____ Date: _____
Employees' Retirement Fund of the City of Dallas
Chair

By: _____ Date: _____
Employees' Retirement Fund of the City of Dallas
Executive Director

Date last revised: ~~January 12, 2016~~December 13, 2016 ~~September 9, 2014~~