SAN JOSE POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

INVESTMENT POLICY STATEMENT

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Executive Summary

The purpose of this document is to set forth the goals and objectives of the San Jose Police and Fire Department Retirement Plan ("Plan"), and to establish guidelines for the implementation of investment strategy. An investment policy serves both as the roadmap for fiduciary decision making in investment matters as well as a governance tool for the Board of Administration ("Board").

Given its importance, the Board developed this investment policy with the assistance of Staff through a holistic and in-depth process guided by the Plan's investment consultants who are experts in the institutional investment policy development process and highly knowledgeable of best practices for fiduciary decision making and governance by institutional investors. The in-depth review processes undertaken with the Plan's external and internal investment experts was done to ensure alignment with the "Plan's" Investment Program goals and risk tolerance and is reflective of current industry best practices so as to minimize the risk of unintended consequences. This document adds to the work of the major investment governance project undertaken in 2018 by the Plan's governance consultant, investment consultant, risk consultant, multiple Trustees from both the Plan's and FCERS' Boards, and internal staff.

The Board recognizes that a stable, well-articulated investment policy is crucial to the long-term success of the Plan. As such, the Board members have developed this Investment Policy Statement with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of the Plan's assets,
- To establish a long-term target asset allocation with a high likelihood of meeting the Plan's objectives given the explicit constraints, and
- To protect the financial health of the Plan through the implementation of this stable long-term investment policy, so that the Plan is able to timely pay retirement benefits owed to its members and beneficiaries when due.

This document includes detail on the Plan's adopted asset allocation policy (summarized in Appendix A) and process, including the selected Functional asset class structure and the Plan benchmarks approved by the Board. It also includes the Plan's policy on manager selection, retention, evaluation, and termination, as well as the Plan's adopted risk policy, with specific risk parameters summarized in Appendix B.

The SAAP shall be updated annually to reflect the current capital market assumptions (CMA) of the Board's general consultant. Although this Investment Policy Statement will be reviewed annually, any proposed changes to the document (other than changes in accordance with the Strategic Asset Allocation setting process) shall be taken under the following conditions:

1. The Plan's investment consultant brings forth a recommended change to align with well established industry practices; or
2. There is a significant shift in the direction of the investment management program by the Board; or
3. The Investment Committee, in consultation with the Plan's consultants, deems it necessary to propose changes based on market and other considerations; or
4. The Board takes action to direct the Investment Committee to review the document outside the ordinary cycle of review specified in the Plan's governance documents and the Investment Committee recommends a change reviewed by the Plan's investment consultants, fiduciary

counsel, and investment staff that accords with current well established industry practices, which the Board must then take action to approve.

Material changes to this investment policy shall undergo the Plan's established investment policy development framework approach described above. Any revisions to this document may be made only with the approval of the Board.

I. San Jose Police and Fire Department Retirement Plan Goals

The San Jose Police and Fire Department Retirement Plan was established to provide retirement income for San Jose Police and Fire Department Retirement Plan employees and their families. The Plan's assets are structured to provide growth from capital gains and income, while maintaining sufficient liquidity to meet beneficiary payments.

II. Investment Objectives

The investment strategy of the San Jose Police and Fire Department Retirement Plan is designed to ensure the prudent investment of Plan assets in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

A. Risk Objectives

1. To accept the optimal level of risk required to achieve the Plan's return objective as stated immediately below.
2. To target total portfolio investment risk consistent with the investment beliefs and strategic goals set forth by the San Jose Police and Fire Department Retirement Board.
3. To consider the financial health of the Sponsor when assuming investment risks.
4. To use diversification to minimize exposure to company and industry-specific risks in the aggregate investment portfolio.

B. Return Objective

1. In a manner consistent with the goals stated in Section I above, to manage the Plan's assets as to achieve the highest, reasonably prudent return possible.

III. Investment Constraints

A. Legal and Regulatory

The San Jose Police and Fire Department Retirement Plan is a defined benefit retirement program for certain employees of the Police and Fire departments of the City of San Jose in the State of California. The terms of the Plan are described in the San Jose Municipal Code.

B. Time Horizon

The Plan will be managed on a going-concern basis. The assets of the Plan will be invested with a long-term time horizon (ten to twenty years or more), consistent with the participant demographics and the purpose of the Plan.

C. Liquidity

The Board members intend and shall make every reasonable effort to maintain sufficient liquidity to meet at least five years of anticipated beneficiary payments, net of plan sponsor and member contributions.

D. Tax Considerations

The Plan is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

IV. Risk and Return Considerations

The Board members accept the risks associated with investing in the capital markets (market risks), but will minimize wherever possible those risks for which the Plan is unlikely to be compensated (non-market or diversifiable risks).

V. Diversification

The Board members of the San Jose Police and Fire Department Retirement Plan recognize that an important element of risk control is diversification. The Board shall diversify the investments of the Plan so as to minimize risk of loss and to maximize rate of return, unless, in light of the circumstances, it is imprudent to do so. Therefore, investments will be allocated across multiple classes of assets, chosen in part for their low correlation of expected returns. Within each asset type, investments will be distributed across many individual holdings, with the intention of further reducing volatility.

The specific degrees of diversification within asset classes will be addressed in each separate account manager's investment guidelines, or in each commingled manager's fund documents.

A. Functional Sub-portfolios

The investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the sub-portfolios is reviewed annually and assessed at least every 3 years as part of the strategic asset allocation policy setting process and is based on projected capital market assumptions. The Chief Investment Officer ("CIO") shall review the relative size and composition of these sub-portfolios and advise the Investment Committee ("IC") of any necessary revisions to the allocation among the sub-portfolios, which in turn must be approved by the Board.

1. **Growth Sub-portfolio**: The purpose of the Growth Sub-portfolio is to grow invested assets over the long term in order to pay future benefits. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

2. **Low Beta Sub-Portfolio:** The purpose of the Low Beta Sub-portfolio is to ensure that the overall (total portfolio) a) is relatively immune from market fluctuations while providing a source of alpha b) is a source of capital for purchasing

undervalued assets in the Growth sub-portfolio, and c) has adequate assets available to pay benefits over an extended timeframe (the immunized cash portfolio). It may contain an "absolute return" program that invests in risk assets in isolation but whose combined long and short betas are relatively neutral to market movements, an immunized cash portfolio, as well as cash and cash-like assets that provide fixed, contractual cash flows with a minimum level of credit risk. For the immunized cash portfolio, the Board has established a target allocation amount of up to 60 months' worth of projected benefit payments in the Low Beta Sub-portfolio, which will be drawn down and replenished annually. The Low Beta portfolio is expected to provide a stable offset to the rest of the portfolio during periods of severe market stress and to effectively dampen the market volatility across the entire portfolio. The success of the Low Beta Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.

3. **Other Sub-Portfolio:** The purpose of the Other Sub-portfolio is to ensure that the overall portfolio is specifically protected against inflation risks while also providing for further diversification. The success of the Other sub-portfolio will be measured by its ability to protect the portfolio from inflation risk while also providing an additional source of return and diversification.

The purpose of the functional classifications and major asset classes are defined in the language and table located in Appendix C.

VI. Roles and Responsibilities

All professionals involved in the investment process, including Board, Staff, investment consultants, investment managers and other service providers, are expected to discharge their duties in the best interest of the participants of the Plan. All of these professionals are expected to act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in a similar capacity and familiar with those matters would use for a similar enterprise and with similar goals.

A. Board of Administration

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. As fiduciaries, the Board members shall carry out their functions solely in the best interest of Plan participants and for the exclusive purpose of providing benefits and defraying reasonable administrative expenses incurred in performing such duties. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

1) Establishing and maintaining the Investment Program's investment policies, including:
    a. Investment Policy Statement ("IPS")
    b. Risk Policy
2) Developing and setting Investment Program investment objectives
3) Approving the strategic asset allocation policy and ranges

4) Setting the active risk budget
5) Selecting Total Plan-level and Asset class-level performance benchmarks
6) Establishing investment risk philosophy
7) Investment Program risk monitoring
8) Investment performance monitoring
9) Monitoring Investment Program costs

B. Investment Committee

The Investment Committee ("IC") is a subset of the Board assigned to review investment related matters in greater detail. The IC has been assigned authority to assist the Board in its duties by meeting on at least a quarterly basis regarding matters of investment policy, risk management, portfolio structure, vendor selection, real estate operations, human resources, reporting, and monitoring. Please refer to the IC Charter for specific detail and when matters shall be brought from the IC to the full Board for approval.

C. Staff

San Jose Retirement Services Staff ("Staff"), including the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), is broadly responsible for supporting the Board in the effective execution of the Investment Program. The CIO has been delegated authority to execute specific elements of the Investment program as outlined below and serves as fiduciary to the Plan:

1) Developing overall implementation strategy for the investment program consistent with the asset allocation and other policies set by the Board;
2) Selecting individual strategy benchmarks, in addition to Board approved asset class benchmarks;
3) Developing and executing the Plan's implementation strategies including manager selection, evaluation and termination;
4) Identifies and communicates risks related to the Investment Program or strategy to the Board;
5) Manages and monitors investment program implementation risk including mitigation of uncompensated active risk;
6) Oversees and approves rebalancing activities;
7) Approves private markets commitments up to the Board-determined thresholds;
8) Maintaining a detailed investment implementation process and procedures ("Procedures");
9) Monitoring performance of individual strategies;
10) Ensure due diligence process is completed on all strategies implemented by the Plan;
11) Ensure prudent investment and operating processes are developed and implemented and monitors manager, consultant and vendor compliance with policies, guidelines and contracts;

12) Ensure Board policies, such as Placement Agent Disclosure Policy, Conflict of Interest Policy, etc. are adhered to as part of the Staff's manager selection and monitoring processes;

13) Ensure investments are completely and accurately reported in all Board reports;

14) Provide to the IC/Board routine and periodic reports sufficient to allow the Board to monitor the delegated authority provided to the CIO pursuant to this Policy so that the IC/Board may satisfy their duty of prudence and duty to monitor its delegated authority.

15) Provide to the IC/Board timely responses to requested information.

D. General Investment Consultant

The General Investment Consultant ("GC") is appointed by the Board to provide independent, objective investment advice. The GC is a fiduciary to the Plan under California law. The GC works with Staff and specialty consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The GC provides advice without discretionary authority to execute on its advice. The GC supports the Board and Staff in the following activities:

1) Development of asset allocation targets and ranges;
2) Investment policy statement development;
3) Investment manager research, recommendations, monitoring, and ad-hoc requests;
4) Investment performance reporting;
5) Capital markets projections;
6) Coordination with the Plan's actuary in conducting periodic asset/liability studies and other required reporting;
7) Board education.

E. Risk Advisory Consultant

The Board may choose to appoint a Risk Advisory Consultant ("RC") to provide independent, objective investment advice. The Risk Advisory Consultant ("RC") is appointed by the Board to provide independent, objective investment advice. The RC is a fiduciary to the Plan under California law. The RC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The RC provides advice without discretionary authority to execute on its advice. The RC supports the Board and Staff in the following activities:

1) Development of risk policy and risk framework;
2) Implementing and managing a risk analytics system;
3) Risk data management;
4) Monthly and quarterly risk reporting;
5) Risk assessment to support portfolio changes or hedges;
6) Board education.

F. **Alternative Investments Consultant**

The Board may choose to appoint an Alternative Investments Consultant ("AC") to provide independent, objective investment advice. The Alternative Investments Consultant ("AC") is appointed by the Board to provide independent, objective investment advice. The AC is a fiduciary to the Plan under California law. The AC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The AC provides advice without discretionary authority to execute on its advice. The AC supports the Board and Staff in the following activities:

1) Manager research, recommendations, monitoring, and ad-hoc requests;

G. Investment managers

Investment Managers are delegated the responsibility of investing and managing Plan's assets in accordance with the IPS, Risk Policy, and all other applicable laws and the terms of the applicable investment documents evidencing the Plan's acquisition of an interest in an investment vehicle, and other controlling documents. Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell investments in amounts and proportions that are reflective of the stated investment mandate.

H. Custodian bank

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the trust, is delegated the responsibility of holding the assets and evidence of interests owned by the Plan in investment vehicles and cash (and equivalents). The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of Plan assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers. The Custodian Bank calculates performance and acts as the book of record.

VII. Asset Allocation and Portfolio Construction

Asset Allocation Policy

The Board recognizes that establishing an appropriate strategic asset allocation portfolio (SAAP) is critical to the long-term success of the Investment Program, as asset allocation is the single biggest determinant of the expected risk and return of the Plan. The Plan's current SAAP including detail of asset exposures and targets is located in Appendix A.

Asset Allocation Policy Setting Process

A. The Board recognizes the most important determinant of long-term return and risk results is the strategic asset allocation policy decision. The Board will set the strategic asset allocation policy target through a process reflective of institutional investor best

practices. The process will involve rigorous and objective analysis and minimize decision-making bias through a disciplined, objective process using the Board's consultants' capital market expected return, risk and correlation assumptions given their expertise in generating capital market forecasts and in consideration of the Plan's projected liquidity from the Plan's employer/employee contributions and needs to pay the projected retirement benefits owed to its members and beneficiaries.

B. The SAAP shall be updated annually to reflect the current capital market assumptions (CMA) of the Board's general consultant. Although this Investment Policy Statement will be reviewed annually, any proposed changes to the document (other than changes in accordance with the Strategic Asset Allocation setting process) shall be taken into consideration under the following conditions:

a. The Plan's general investment consultant brings forth a recommended change to align with well established industry practices; and/or

b. There is a significant shift in the direction of the investment management program by the Board.

c. The Investment Committee, in consultation with the Plan's consultants, deems it necessary to propose changes based on market and other considerations; or

d. The Board takes action to direct the Investment Committee to review the document outside the ordinary cycle of review specified in the Plan's governance documents and the Investment Committee recommends a change reviewed by the Plan's investment consultants, fiduciary counsel, and investment staff that accords with current well established industry practices, which the Board must then take action to approve.

C. The Board will conduct an asset allocation policy assessment process at least every 3 years as current industry best practice is every 3 to 5 years. The Board reserves the right to re-visit the asset allocation policy during major events to determine whether rebalancing or unique other opportunities exist after consultation with the Plan's consultants and staff. These reviews are focused on a long-term time horizon and are not an attempt to predict short-term market movements but to understand the potential long-term impacts of market results on the Plan.

D. The framework to be employed in the strategic asset allocation policy setting process will be based upon the general consultant's asset allocation models as these should be consistent with current industry best practices for conducting asset allocation analyses. These models utilize various tools per industry practice for asset allocation analysis. Both the general consultant and the Board's Risk Advisory consultant will engage in analytical techniques, such as stress tests and scenario analyses for the current policy and potential policy alternative portfolios, to evaluate how the return and risk profile of the Plan may be affected by changes in assumptions about future capital market conditions.

E. The CIO and general investment consultant will present the current SAAP and a number of reasonable alternatives for the IC to consider. The IC may provide feedback to the CIO and investment consultants, which may require further analysis and a request for revised recommendations for the IC to initially consider and, ultimately, for the Board to approve. The Board will review the final analyses and recommendations from the CIO and general

consultant and approve Strategic Asset Allocation Portfolio weights, targets and ranges (maximum – minimum).

Evaluating Asset Allocation Decisions

A. The Board shall periodically evaluate the effectiveness of its asset allocation decisions using the SAA weighted portfolio benchmark (see Appendix A for weights and exposure benchmarks)-.

B. The Board will evaluate additional benchmarks in order to assess the value added by the CIO, investment staff, and the investment consultants:

1. **Actual Portfolio:** This is the actual portfolio implemented by the CIO and investment staff with support from investment consultants. The Actual Portfolio includes private markets and hedge funds and reflects any active management exercised by the CIO and the underlying investment managers, subject to Board-approved policies and CIO-approved procedures.
2. **Reference Portfolio**: This is a portfolio which reflects a commonly cited blended benchmark by other institutional investors. The Reference Portfolio is 60% MSCI ACWI IMI and 40% Bloomberg US Aggregate Bond Index.
3. **Custom Reference Portfolio**: This is a portfolio which reflect the current SAAP risk profile as represented by passive, public market indexes for the main SAAP risk drivers, equity risk (i.e., Growth portfolio) and credit/rates risk (i.e., Low Volatility portfolio).
4. **Investable Benchmark Portfolio:** The Investable Benchmark Portfolio is identical to the SAAP but is adjusted for the fact that the SAAP is not constantly "investable" with respect to private market asset classes by using actual portfolio asset class weights. The following table illustrates how the performance of the CIO would be evaluated. Again, the returns are hypothetical and for illustration purposes only.

Portfolio Benchmark		Net Return (%)	Value Added (%)	Conclusions
A	Actual Portfolio	7.5	0.5% (A - B)	CIO outperformed the Benchmark Portfolio from these sources: i) manager selection (including security selection effects) and ii) other effects
B	Benchmark Portfolio	7.0	n/a	

C. For the benefit of stakeholders, on a quarterly basis the Board shall also measure and report for comparison purposes, the Actual Portfolio return relative to a peer group benchmark consisting of other U. S. public pension plans similar in size to the Plan, as reported in the InvestmentMetrics Public DB > $1B Net.

Rebalancing

A. The CIO shall adhere to the SAAP asset and sub-asset class "targets" approved by the Board and shall rebalance to within the approved range at least quarterly if the actual weights at the sub-asset class levels are not within 10% of the approved target, considering the cost of more frequent rebalancing. For example, if the target allocation for an asset class is 20%, re-balancing will be triggered quarterly when the actual allocation for the asset class deviates by +/- 2% (i.e. 10% x 20%, reaching 18% or 22%). The CIO may use discretion to rebalance to within the approved range at more frequent intervals than quarterly, and when actual weights are within 10% of the approved target, subject to an assessment of market risk, active risk, and transactions costs. When a change to the SAAP is made by the Board, the CIO and the investment team will rebalance to the new target weights as expeditiously as possible, or in tranches if directed by the Board. The CIO shall also use his discretion in rebalancing to the new SAAP in the event that instant liquidation of managers within an asset class may work against the interests of the Plan. Changes to the weights of illiquid asset classes may take several quarters to implement, and the CIO shall keep the IC apprised of progress toward the new SAAP. Synthetic rebalancing through an overlay provider may also be used when appropriate. The Immunized Cash Flows portfolio is exempt from this rebalancing provision, as it is amortizing by design.

B. Total plan active risk (i.e. tracking error) is to be maintained below 4%, as detailed in the appendix. While asset class exposures may fall within acceptable capital allocation ranges as noted above, total plan tracking error is not to exceed this 4% threshold.

VIII. Manager Selection, Retention, Evaluation & Termination Policy and Delegated Authority in Plan's Investment Program

Background

A. The Board has delegated to the CIO the authority to select and terminate all investment managers of the Plan subject to constraints and parameters contained herein. Such authority shall be further subject to Manager Selection, Retention, Evaluation, Termination & Fees Procedures ("Procedures"), approved by the CIO and the General Investment Consultant, that provide more detailed constraints and parameters.

B. It is the Board's intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers with the exception of co-investments (which the Board retains authority due to the investment concentration risk of co-investments). This exception does not pertain to funds where an external manager has discretion.

C. The Procedures will be reviewed annually by the Board's Investment Committee and shall be consistent with the provisions set forth in this Investment Policy Statement. Any proposed revisions to the Procedures will be communicated to the Investment

Committee and to the full Board, where deemed necessary by the Investment Committee.

D. Accordingly, the CIO shall have the authority to:

1. Manage the Investment Personnel of the Plan, including:
    a. Recommending to the CEO the appointment and duties of all professional, technical, and clerical employees of the Investment Division;
    b. Directing and supervising all Investment Personnel on a day-to-day basis; and
    c. Evaluating all Investment Personnel and managing their professional development.
2. Select and terminate investment consultants to assist in the selection, retention, evaluation, and termination of investment managers.
    a. The CIO may use the services of the general investment consultant appointed by the Board. Alternatively, if the services of the general consultant can be unbundled to separate manager research services, the CIO may select a consultant(s) of his or her choice to carry out manager research services that would otherwise have been included in the general investment consultant scope of services.
    b. The CIO shall ensure that the total fees and expenses associated with the consultants he or she selects are reasonable. Total expenses associated with and consultants hired by staff shall be disclosed within the Annual Fee Report.
    c. While the CIO shall have the authority to select and terminate investment consultants, the Board shall approve all contracts with investment consultants selected by the CIO to ensure such contracts reflect fair and reasonable value for the Plan.
3. Delegation of authority to the CIO to select and terminate investment managers reflects the Board's desire to:
    a. Promote efficiency and effectiveness in the manager selection and termination processes;
    b. Focus the Board's time and attention on investment policy, asset allocation, and oversight, rather than manager selection and termination; and
    c. Establish clear accountability on the part of the CIO and investment staff for manager selection, retention, evaluation, and termination.

General Constraints and Parameters, and Limitation on CIO's Delegated Authority

A. The CIO's authority to select and terminate investment managers shall be subject to the following general constraints and parameters in addition to the Procedures.

1. Investment managers shall meet the following **minimum qualifications** to be selected to manage any assets of the fund:

    a. Be **registered as an investment advisor** under the Investment Advisor's Act of 1940 or comparable legislation, unless the manager represent and warrants that it is exempt from such registration under applicable law and provides the basis for the exemption.

    b. Agree to serve as fiduciaries to the Plan and to enter into a contract with the Plan requiring them to perform their services consistent with the fiduciary services established under (a) the Investment Advisor's Act of 1940; (b) California law applicable to fiduciaries of public employee retirement systems, which includes the California State Constitution, Art. XVI, sec. 17 and the San Jose Municipal Code and/or (c) terms and conditions substantially comparable to the foregoing that are satisfactory to the Plan.

2. The nature and size of the manager's mandate shall be consistent with:

    a. The asset allocation policy of the Plan;

    b. Applicable constraints contained in the Procedures and this Investment Policy Statement; and the total Plan **active risk limit(s)[8] contained in the risk section of this Investment Policy Statement**.

    c. Notwithstanding paragraph (2)(b) immediately above, the CIO shall not approve the selection of an investment management firm for mandates that exceed the following limits without Board approval:

        Investment Limits:

        - No more than 15% of total plan assets in an active investment strategy
        - No more than 25% of total plan assets in active and private investment strategies managed by a single asset management firm at time of investment[9]
        - No direct investments or co-investments (except where an external manager has discretion)
        - Up to 1% of total plan assets per private markets investment at time of investment [10],[11]

[8] Active risk or tracking error limits may apply at the total fund level, or another aggregation (e.g. public markets assets only, excluding private markets). Risk limits may also be based on concentration, expressed for example, as a percentage (%) of some total amount of risk.

[9] Passive investments are not subject to any limits.

[10] The limit for acquisition of secondary interests is calculated as purchase price at time of investment plus any remaining unfunded commitment.

[11] For fund-of-one's, the limit applies to underlying investments, not a commitment to the fund-of-one.

- Total $ commitment to a private markets asset class (e.g. Private Debt) in a fiscal year of 150% of Board-approved pacing plan (cumulative)[12]

B. The Procedures shall include any **checklists and templates** used in the due diligence process. Staff will present a sample due diligence presentation to the Investment Committee annually. The selection of an investment manager that would contravene a provision of this policy or the Procedures shall require approval by the Investment Committee.

C. Quiet Period/No Contact policy

Imposition of a Quiet Period/No Contact policy. Board members and non-investment staff shall not have contact with parties who are under consideration for engagement by the Plan in response to an RFP, RFI, purchase order, other solicitation or other contracting process that has reached the point of specific focus on such parties, except in accordance with the published terms of the contracting process or except for, and limited to, contact necessary in connection with ongoing Plan business with a party. The Plan's communications with such parties shall include notice that a no-contact "quiet period" will be in place from a specific date until the contracting decision is finalized with respect to such parties, such that these communications shall not occur, except as provided above. As part of the contracting process, potential contracting parties (a) shall be informed by investment staff of the quiet period requirements and that violations of the quiet period requirements will cause immediate disqualification from their being engaged by the Plan; (b) shall be required to disclose potential conflicts of interest; and (c) shall make the placement agent disclosures required by law and Plan policies. Board members and non-investment staff shall not influence or attempt to influence, the Plan's decision-making process, outside of the authorized actions on behalf of the Plan.

Watch List

D. A "**Watch List**" will be established for underperforming managers and managers under extraordinary review for qualitative reasons, and will be maintained by the General Consultant and provided to the Board on a quarterly basis.

1. Quantitative criteria for underperformance which would trigger placement on the Watch List includes manager underperformance versus the appropriate benchmark over a three and/or five year period.
2. Potential actions resulting from placement on the Watch List include finding appropriate resolution of outstanding issues, renewed confidence in the manager or strategy, or determination that the termination of the manager or strategy is appropriate.

[12] The "cumulative" provision allows for a "catch-up" for slower than planned investments in prior years to the extent that the previous fiscal year asset class deployment was below the Board-approved pacing plan for that asset class.

3. Investment staff will identify underperforming managers in conjunction with consultants.

4. As necessary, nuanced investment strategies or fund types may require customized review.

E. Fees/Expenses

1. The Plan will seek alignment of interests when negotiating fees while pursuing the best net of fees performance results. Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the Plan. The Board will be provided reports on investment costs of the Plan at least annually.

2. The Plan's staff, in coordination with its investment consultants and legal counsel, will negotiate, monitor, and report on fees with investment managers regularly to ensure market competitiveness and appropriateness.

3. The Plan will seek to ensure that excessive fees are not being paid for alternative assets by reviewing manager fees at least annually. Fee structures could incorporate fixed fees, performance based fees, high water marks, waterfall, hurdles, floors and caps. The Plan may also incorporate multi-year performance periods with clawbacks as needed.

IX. Risk Policy

Purpose and scope

The purpose of this Risk Policy is to ensure that the Investment Program risk is consistent with the investment beliefs and strategic goals set forth by the Board. This document defines the roles and responsibilities for maintaining this Risk Policy, management of the investment risks of the Plan, and monitoring the results. It also articulates the Board's philosophy towards investment risk. The Plan intends to use risk management to make more informed decisions and improve the likelihood of achieving its strategic goals and objectives within the appendix, specific risk targets and limits are established.

The Risk Policy will cover investment risk, liquidity risk, credit risk, and funding risk. The Risk Policy will not cover enterprise risk concepts such as operational risk, regulatory risk, legal risk, and counterparty risks.

Objectives

The objectives of the risk management program are:

A. To ensure only intentional risks that are expected to yield commensurate rewards are taken and unintentional risks that are not expected to yield consistent rewards are avoided;

B. To manage asset drawdowns due to adverse market conditions through intentional risk taking and continuous risk monitoring and measurement;

C. To formalize and communicate a consistent approach for managing risk;

D. To ensure the investment risks assumed by the Plan are appropriate given the financial health of the Sponsor;

E. To communicate the Plan's commitment to risk management and the central role in achieving Plan goals and objectives;

F. To ensure the Plan operates within the agreed risk tolerance and risk limits;

G. To monitor, measure and understand the Plan's investment risk exposures at various levels including total Investment Program.

Definitions

To aid with the interpretation of this policy, a glossary of terms is included in the Appendix D, which defines all the technical terms used in this policy.

Governance

The Board retains sole responsibility of governing the Plan, setting investment policy and risk policy, and monitoring the performance of the Investment program. The Board delegates specific areas of investment strategy implementation and risk management responsibility to the CIO while retaining appropriate oversight of the delegated activity principally through communication and reporting from the Board's Risk Advisory Consultant and General Investment Consultant.

Philosophy

Risk must be taken to achieve sufficient returns to meet the Plan's obligations to its participants. An institutional investment program is inherently exposed to many types of risk; therefore, risk is considered throughout the investment process from asset allocation to performance evaluation. This Risk Policy focuses primarily on the investment risks caused by the markets to which the Plan is exposed (e.g. Public and private equities, real estate, public and private fixed income, and others). Related risks such as counterparty, geo-political, and fraudulent or unethical behavior, among others, are not addressed in this Risk Policy.

This Risk Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of fiduciary obligations. The statements below set forth the Board's Risk Philosophy, in order of importance:

Investment risk policy should consider the financial health of the sponsor

Contribution volatility (i.e. the volatility of annual contributions made to the Plan by the Sponsor) represents a significant budgetary constraint on the Sponsor's financial planning with important implications for taxpayers. The Investment Program shall, therefore, assume a level of volatility that can be tolerated by the Sponsor in both normal as well as stressed market conditions.

The funded status (i.e. funded ratio), viewed as a general proxy for the health of the Plan, is reviewed on both actuarial and market value of assets bases. While a higher funded ratio is always preferred, the Investment Program shall not accept a level of risk that for a given probability could cause the funded ratio to fall below the limit identified in Appendix B.

The Plan will manage funding risk in three main ways:

A. Actuarial review: The actuary will periodically review the Plan's liabilities

B. Asset/Liability studies: The general consultant will periodically perform this study to identify changes in the relationship between assets and liabilities

C. Asset Allocation: The Plan will periodically conduct asset allocation studies to ensure:

1. Sufficient diversification of investment and other related risks, and
2. expected portfolio returns over the long-term (i.e. 10 years or more) in combination with projected contributions are sufficient to meet expected liabilities.

Volatility and drawdown are the primary measures of investment risk

Because the Plan must satisfy long-term liabilities and receives regular contributions from the Sponsor, the Investment Program invests for the long-term appreciation of assets. It is, therefore, able to withstand short-term volatility spikes without undue impairment of capital. For this reason, long-term volatility (i.e. 8 years or more) is considered the appropriate timeframe. Volatility is forecasted through the Plan's strategic asset allocation and risk reporting processes and is measured and monitored as outlined in Appendix B.

Market corrections due to economic recession, geo-political instability, and other causes have historically proven detrimental to the funded status of the Plan. Drawdown and tail-risk metrics are designed to assess potential investment returns during such periods of market stress. Historical drawdown scenario analysis provides insight into how the portfolio would respond if it were exposed to prior stressed market conditions. Tail-risk analysis provides insight into the probabilities of experiencing a negative investment return with a small (e.g. 5%) probability. These metrics provide insight into how much may be lost during a stressed market environment. Because market corrections are statistically infrequent and typically caused by unforeseen events, neither approach can be used with certainty, but each provides insight into the potential impact a worst-case scenario may represent to the Plan and Sponsor.

Active risk, factor exposures, and liquidity must be monitored

Implementation of any strategic asset allocation introduces deviations between the Plan's actual portfolio and its policy index. While it is generally desired to minimize these differences to achieve efficiency, deviations from the policy index may be desirable for various reasons. To ensure the actual portfolio is appropriately adhering to the policy index, active risk must be measured and monitored through tracking error statistics.

Factor exposures capture the underlying economic drivers supporting asset class returns. While the policy index and actual portfolio are constructed primarily through asset class forecasts, factor exposures provide important insight into the underlying economic drivers supporting the Investment program. Each security owned within each investment strategy has some exposure to various economic drivers. The Investment Program's total exposure to the economic drivers is, therefore, driven by the exposures inherent in those securities as well as the correlations across the factor exposures. To understand better the Plan's exposure to the economic drivers and anticipate how the Investment Program will perform under various economic environments, factor exposures must be measured and monitored.

In addition to benefit payments, the Plan must meet its obligations to pay its expenses and satisfy capital calls. Generally, these cash outflows are predictable and can be met through the normal administration of the Plan. Under stressed market conditions, however, liquidity within the Investment program can change significantly and with little advance notice while the Plan must

continue to meet its obligations, primarily to pay out benefits it owes to its members and beneficiaries under the California Constitution. Liquidity must, therefore, be monitored and measured to ensure that the Plan can continue to meet its financial obligations during periods of market stress without being forced to sell assets at stressed prices.

Monitoring

Reporting processes are designed to provide the Board with the information needed to execute its oversight function. The Investment Committee, CIO and RC will measure and monitor the Investment Program's risk exposures quarterly, the results of which will be communicated to the Board via the IC. This detailed review process will include security-level exposure analysis of the Investment Program's factor exposures; asset class exposures; tracking error; tail-risk and drawdown scenario analysis, and geographic exposures. Staff and the RC will measure and monitor the Investment Program's risk exposures on a monthly basis.

Measurement

Investment risk will be measured using multiple metrics on both an absolute and relative basis at all relevant levels (i.e., total Investment Program, asset class and portfolio level) using both returns-based and holdings-based risk analysis. In addition, downside risk metrics identified through stress testing and scenario analysis will be employed.

Management

The Plan's risk management function is expected to evolve through time. The objective of the risk management function is to ensure the Plan operates within the Board's agreed risk tolerance and limits. The main goals of the risk management function are:

A. Identify: risks that will impact the plan's ability to meet its goals and objectives;

B. Estimate the significant risks to which the plan is exposed;

C. Manage: risk must be managed and should be commensurate with the rewards;

D. Communicate: risks must be reported and monitored on a regular basis.

To a large extent, many factors that impact future benefits and contributions are uncontrollable, however, the potential impacts are considered in strategy development. The Plan uses three approaches (actuarial valuation, asset/liability studies, and asset allocation studies, as discussed above) to address and manage risk.

The Board has delegated authority to the CIO for certain risk management functions as detailed below. The Board shall be notified timely of investment decisions related to these functions made by the CIO and their implications to the Plan.

A. Rebalancing

Portfolio rebalancing is the most important risk management activity as this is the main mechanism through which the strategic asset allocation is maintained by the Plan. Rebalancing reduces unintended risk due to asset allocation drift. Portfolio rebalancing may occur by adjusting allocations to individual investment strategies or managers or through the use of an overlay provider using derivatives.

B. Relative Risk

While the Board recognizes that the majority of investment risk over the long term is dependent on the asset allocation decision, it recognizes the cost of precisely matching

the strategic asset allocation is considerable and not always optimal. In addition to asset class weightings versus policy, annualized tracking error will be used to measure the disparity of returns between the actual positions in the Investment Program compared to the strategic asset allocation.

X. Investment Costs

The Board members intend to monitor and control investment costs at every level of the San Jose Police and Fire Department Retirement Plan.

A. Professional fees will be negotiated whenever possible.

B. Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.

C. If possible, assets will be transferred in-kind during manager transitions and Plan restructurings to eliminate unnecessary turnover expenses.

D. Managers will be instructed to minimize brokerage and execution costs.

XI. APPENDIX A [10]

ASSET ALLOCATION TARGETS[11] [AS OF November 1, 2026]

	Target (%)	SAAP Asset Class Benchmarks	LCPP Asset Class Benchmarks	Tracking Error Target Range (basis points)
Growth	**65.5**			
Public Equity	**38**	Custom Public Equity Benchmark[12]	LCPP Custom Public Equity Benchmark[12]	0 - 400
Total Private Markets	**27.5**	Actual Return		NA
Private Equity	10		Russell 3000	
Venture/Growth Capital	4.5		Russell 3000	
Private Debt	5		Bloomberg Aggregate	
Growth Real Estate	4		FTSE EPRA NAREIT Global	
Private Real Assets	4		S&P Global Natural Resources	
Low Beta	**12**			
Market Neutral Strategies	3	SOFR + 1.5%	SOFR	0 – 1,000
Immunized Cash Flows	9	Actual Return	Bloomberg Gov/Credit 1-3 Year	NA
Other	**22.5**			
Core Real Estate	6	NCREIF ODCE Cap Weighted – Net (Lagged 1 quarter)	FTSE EPRA NAREIT Global	0 – 400
Multi-Sector Bonds	15	Bloomberg U.S. Universal Index	Bloomberg U.S. Universal Index	0 - 300
Long-Term Government Bonds	1.5	Bloomberg US Long Treasury	Bloomberg US Long Treasury	0-100

[10] Appendix A shall be revised as new Asset Allocation targets are approved by the Board.
[11] Approved by the Board of Administration on May 20, 2026.
[12] 55.95% MSCI US IMI Net, 30.95% MSCI World ex US IMI Net, 13.10% MSCI EM IMI Net.

APPENDIX B

RISK POLICY OPERATING RANGES AND LIMIT TARGETS

Characteristic	Measurement	Operating Range Min.	Operating Range Max.	Board Approved Limit
Funded ratio	Probability that the Actuarial funded ratio will fall below the Board Approved Limit	80%	n.m.	5% probability of falling below 60%
Sponsor contributions	Probability that Sponsor contributions in a single year will exceed a specified limit	$160mm	$220mm	5% probability of exceeding $335mm
Interest on UAL	Probability that the Interest cost of unfunded actuarial liability will increase above a specified limit	$35mm	$80mm	5% probability of exceeding $150mm
Total fund absolute volatility	Forecast Annualized standard deviation of returns of the actual portfolio	8%	10%	12%
Total fund relative volatility	Forecast Tracking error of the actual portfolio vs. the strategic asset allocation policy index	1%	2%	4%
Drawdown exposure	Average of three worst historical scenario drawdown events	n/a	n/a	-30%
Liquidity	Liquidity Coverage Ratio (LCR) 5-yr projection	2.0	3.0	1.2

APPENDIX C

CURRENT FUNCTIONAL ASSET CLASS CLASSIFICATIONS

Public Equity – *Growth*

The purpose of Public Equity is to provide the Plan exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth, while managing volatility relative to the equity market.

Private Markets – *Growth*

The purpose of Private Markets is to provide the Plan exposure to asset growth and income while diversifying the portfolio and capturing an illiquidity premium.

Market Neutral Strategies –*Low Beta*

The purpose of Market Neutral Strategies is to produce alpha based returns while reducing overall Plan volatility and increasing Sharpe ratio.

Bonds (Immunized Cash Flows) – *Low Beta*

The purpose of Bonds (Immunized Cash Flows) is to provide liquid funds for expected outflows and allow for other assets to be invested in an illiquid fashion.

TIPS – *Other*

The purpose of TIPS is to provide exposure to inflation in addition to interest rates.

Core Real Estate – *Other*

The purpose of Core Real Estate is to produce the Plan income and price appreciation while maintaining a low correlation to both stocks and bonds.

Long-Term Government Bonds – *Other*

The purpose of Long-Term Government Bonds is to provide a positive return in highly stressed market environments, with a low correlation to equity risk.

Multi-Sector Bonds – *Other*

The purpose of Multi-Sector Bonds is to produce returns and income for the Plan by providing exposure to rates and credit risk.

APPENDIX D

DEFINITIONS

Actuarial Assumptions: Assumptions made by the actuary that influence the valuation of liabilities

Active risk: measures the volatility of an investment strategy versus its benchmark.

Concentration Risk: Lack of diversification in exposure to markets or managers.

Confidence Interval: a range of values so defined that there is a specified probability that the value of a parameter lies within it.

Counterparty Risk: The risk that a party in a transaction does not fulfill its contractual obligation. Both sides of a contract are exposed to this risk

Credit Risk: Also referred to as default risk. This is the risk the borrower fails to repay a loan or meet a contractual obligation.

Currency Risk: The potential loss on the price of an asset due to fluctuating foreign currency exchange rates.

Drawdown: a measure of both returns and time over which an investment experienced a decline in value from a peak to a trough. It is based on actual historical results.

Duration: measures how long (in years) it takes to be repaid the bond's price by the bond's total cash flows. This measure is used to determine the interest rate sensitivity of the portfolio.

Funded Ratio: The ratio of assets to liabilities. Assets can be defined in terms of the market value of assets or the actuarial value of assets. Liabilities are defined as all future benefit payments discounted at the actuarial assumed return,

Funding Risk: Also referred to as surplus risk, this is the risk of assets and liabilities not matching

Inflation Risk: The risk that general prices of goods and services are rising, which erodes the purchasing power of money.

Interest Rate Risk: The risk than an investment will decline in value as a result of a change in interest rates. This risk is measured by its duration

Investment Risk: the risk associated with investing in capital markets

Liquidity: Is comprised of both the time required to complete the transaction and the impact that the transaction has on the price of the asset. There are two types of liquidity risk: Market liquidity risk and funding liquidity risk. Market liquidity risk refers to the risk that an asset cannot be sold without loss of value. Funding liquidity risk refers to the risk that the plan will not be able to meet financial obligations as they come due.

Liquidity Coverage Ratio: The ratio of liquidity available to liquidity needs.

Portfolio Construction Engine: A software program relying on mean-variance optimization. Portfolio optimization requires inputs of asset class returns, standard deviations, and correlations in order to develop an output of total portfolio expected returns and standard deviations, which can be compared along with their Sharpe Ratios.

Risk: the uncertainty of an event occurring

Standard Deviation: The square root of the average squared deviation of the returns from its mean

Strategic Asset Allocation: The asset classes and weights that are targeted for the policy benchmark

Tail Risk: Tail-risk measures both the probability and expected returns of a significant loss. When assuming normally distributed returns, tail-risk is the left tail of the return distribution. The normal distribution used for mean-variance optimization underestimates the risk of rare events when markets exhibit fat tails (for example, during the Global Financial Crisis).

Volatility: the standard deviation of returns. Standard deviation (SD) is the square root of the average squared deviation of the returns from its mean.