

**STATEMENT OF INVESTMENT POLICY  
SAN JOSE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM**

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## **General Environment**

It is the policy of the San Jose Federated City Employees' Retirement System (SJFCERS) to effect economy and efficiency in the public service by providing a means whereby career employees or employees who have become incapacitated may leave public service without hardship or prejudice, and to that end provide a retirement system consisting of retirement allowances and death benefits.

Investments in such retirement system are subject to the restrictions specified in the San Jose Retirement Code sections 3.24.350, 3.24.360, 3.28.350 and 3.28.355. Further investment management guidelines are imposed by the San Jose Federated City Employees' Retirement Board ("Board"). The Board retains its official oversight of the System but has designated the Investment Committee of the Whole ("Committee") to act as a conduit for investment issues to be presented to the Board.

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's Board ("Board") and its delegate in effectively supervising, monitoring and evaluating the investment of the System's assets. The System's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- Setting forth an investment structure for managing all the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for the investment System that control the level of overall risk and liquidity assumed in that System, so that all the System's assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Board, the investment consultant (Consultant) and the money managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements. The Board shall:

- (1) Require that the Retirement System be sufficiently funded to assure that all disbursement obligations will be met.
- (2) Attempt to insure that the investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.
- (3) Strive for the highest total return on investment funds consistent with safety in accordance with accepted investment practices and maintain an appropriate asset allocation policy that is compatible with the objectives of the System.
- (4) Control costs of administering the System's assets and managing the investments.

## **Duties and Responsibilities of the Investment Committee of the Whole**

The Committee will determine its own meeting schedule, but will meet no less than four times per year. In its meetings, the Committee may:

- Review the overall fiscal status of the System
- Review the investment performance and the market value of the System and of the managers
- Request any or all of its investment managers and consultants to make a presentation at any meeting
- Review the actual asset mix of the System relative to the policy mix
- Review general compliance with this Statement
- Review System cash flow and net asset positions
- Review any redirection of cash flow, transfers of assets, or sales, including all rebalancing transactions
- Recommend to the Board any modifications to this statement, except for those responsibilities reserved for other parties

**In all instances, any actions warranted as a result of Committee review are the Board's responsibility.**

## **Duties and Responsibilities of the Committee for Investments**

The Committee for Investments will be responsible for the following:

- Meet quarterly to evaluate and make recommendations to the Board on investment related issues
- Make recommendations for updating the Investment Policy
- Perform other investment matters directed by the full Board, including asset allocation, manager searches and reviews
- Recommend to the Board the hiring or termination of investment managers and consultants
- Complete investment manager due diligence visits as needed
- Conduct investment related projects or studies as directed by the Board

## **Duties and Responsibilities of the Real Estate Committee**

The Real Estate Committee will be responsible for the following:

- Meet quarterly to evaluate and make recommendations to the Board on real estate related issues
- Make recommendations for updating the real estate strategic plan, tactical plans and the real estate operations guidelines
- Perform other real estate matters directed by the full Board
- Recommend to the Board the hiring or termination of real estate advisors and consultants
- Complete real estate due diligence visits as needed
- Approve annual real estate budgets
- Approve expenditure of funds for due diligence on a separate property of:
  1. Up to 1% of the purchase price
  2. Up to 2% of the purchase price for refundable deposit due during the escrow period
- Recommend to the Board approval of acquisitions and dispositions of real estate
- On dispositions, recommend a listing price for approval and accept cash offer at a price that is at or above negotiated sale price
- After Board approval of a disposition, approve expenditure of funds for expenses necessary for the consummation of the sale

## **Duties and Responsibilities of the Director, Retirement Services**

The Director is charged with the day-to-day responsibility for:

- Managing and monitoring net cash flow, so that the sum of income, contributions, and sales of securities is sufficient to provide for current payment obligations
- Implementing rebalancing directives, in concert with the custodian and any affected investment managers
- Ensuring that plan administration complies with this document and applicable state regulations
- Enforcing and monitoring the compliance of all System policies and procedures

- Annually reviewing the strategic asset allocation policy
- Reviewing and monitoring the investment managers and their compliance with investment guidelines
- Maintaining open communications with all parties to the System, especially the Board, the investment managers, custodian, and consultant
- Preparing performance reports, summaries and comments on the performance of the investment managers
- Monitoring the timeliness and accuracy of custodian reports
- Coordinating Board meetings, manager presentations and discussions, and consultant activities, presentations, and discussions
- Identifying issues to be brought before the Board, and preparing recommendations to the Board on those matters, including educational issues, new developments, new asset classes and investment vehicles
- Such other matters as are directed by the Board from time to time.

### **Duties and Responsibilities of the Consultant**

The following responsibilities may be delegated to the Consultant or the Custodian with the approval of the Board.

- Assist in the preparation of a quarterly monitoring and performance report with respect to the System's investment managers. The report shall note exceptions to manager mandates or investment guidelines when apparent from performance data
- Attend the quarterly presentations of the investment managers
- Advise on investment policy, implementation, and control issues as requested by the Board
- Prepare ad hoc studies as requested by the Board
- Identify and present to the Board educational issues and new developments
- Define the universe of asset managers used to compare the performance of the investment managers.
- Assist and advise the Director of Retirement Services in a manager search and selection process.

## **Duties and Responsibilities of the Custodian**

The Custodian shall have the responsibility:

- To settle all transactions
- To collect income
- To provide safekeeping and accounting for assets
- To document the value of assets
- To provide audited accounting reports
- To provide specialized services as needed, i.e., securities lending
- To provide other reasonable services to insure the integrity of the Fund
- To provide a program for disaster recovery.

## **Duties and Responsibilities of the Investment Managers**

The duties and responsibilities of the investment managers retained by the Board include the following:

- Investing and reinvesting the System's assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Board.
- Exercising investment discretion within the IPS objectives and guidelines set forth herein.
- Promptly informing the Board in writing regarding all significant and/or material matters and changes pertaining to the investment of the System's assets, including, but not limited to:
  - a. Investment strategy, especially any changes which may result in significant losses to the System
  - b. Portfolio structure
  - c. Tactical approaches
  - d. Ownership

- e. Organizational structure
  - f. Financial condition, and any changes in the firm's total assets
  - g. Professional staff
  - h. Recommendations for guideline changes
  - i. All legal material, SEC and other regulatory agency proceedings affecting the firm.
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- Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like System with like aims in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.
  - Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

## Asset Allocation Policy

The following policy has been identified by the Board as having the greatest expected investment return and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds.

It shall be the Policy of the System to invest its assets in accordance with the maximum and minimum range, valued at market value, for each asset class as stated below:

From January 2004 to December 2007 the following asset allocation was in effect:

### Without Private Markets

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic Equity	38%	43%	48%
International Equity	10%	15%	20%
Domestic Bonds	24%	29%	34%
International Bonds	4%	7%	10%
Real Estate	3%	6%	9%

### With Private Markets

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic Equity	30%	35%	40%
International Equity	10%	15%	20%
Domestic Bonds	29%	34%	39%
International Bonds	4%	7%	10%
Real Estate	3%	6%	9%
Private Markets	0%	3%	6%

Starting from January 2008 the following asset allocation is in effect:

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Domestic Equity	28%	33%	38%
International Equity	15%	20%	25%
Fixed Income	31%	36%	41%
Alternatives		11%	
• Real Estate	3%	6%	9%
• Private Markets	2%	5%	8%

The investment policy is expected to have a high likelihood of meeting the objectives outlined in the “Statement of Investment Objectives” section which preceded this section.

(Procedure 453)

The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

The Investment Policy and the asset allocation are generated using certain market assumptions. These assumptions include the expected median return and standard deviation for each asset category and the expected correlation coefficients among the asset classes. When these presumptions change, the policy needs to be modified to compensate for those changes so that the Retirement System remains sufficiently funded to meet all distribution needs.

### **Time Horizon**

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short-term nature. The Director of Retirement Services will review the asset mix of the Plan on a semi-monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in Procedure 454. Additionally, the Board will review the strategic asset allocation on an annual basis to determine if there is a need to make any changes.

### **Risk Tolerances and Volatility**

The Board recognizes the difficulty of achieving the System’s investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the System’s long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

Consistent with the desire for adequate diversification, the Investment Policy is based on the expectation that the volatility (the standard deviation of returns) of the total System will be similar to

that of the market. Consequently, it is expected that the volatility of the total System will be reasonably close to the volatility of a commitment weighted composite of market indices.

## Re-balancing of Strategic Allocation

(Procedure 454)

The Plan's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the System.

General guidelines for re-balancing the portfolio are as follows:

- (1) When the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum, the asset class will be re-balanced to within the policy range over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. **If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.**
- (2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient, then the manager will be requested to liquidate that portion of the portfolio which will result in the manager's portfolio coming within the specific target range.
- (3) Transfers shall first be made to asset classes below the minimums, then to asset classes below the targets, unless the managers in those classes are already holding excess cash or they feel it would be imprudent to increase their size.
- (4) Transfers to or from the Domestic Stock asset class should be made such that the asset class remains style neutral. The portfolio should remain biased towards large capitalization over small capitalization. Transferred assets shall first consist of cash in the portfolios. If the cash is not sufficient, then the managers will be requested to liquidate that portion of the portfolios which will result in the asset class coming within the specific target range and remaining balanced between Growth and Value.
- (5) Since the Domestic Equity Class represents a large part of the Fund, it can be balanced internally through the use of secondary targets established within the class. The table below provides an example of how balances within the class are maintained. To determine

whether the target is met for each of these categories, a subtotal is computed for the assets held by each group of managers. The percentage of the total portfolio that each group represents is determined, and compared against the target levels. When the allowable variation is exceeded, the procedures for adjustments between asset classes are then applied within the domestic equities class to meet the secondary target levels.

<b>Asset Allocation Model Secondary Targets Within the Domestic Equity Class</b>			
<i>Portfolio Category: Form of Investment Management</i>	As a Percentage of the Domestic Equity Portfolio	As the Equivalent Percentage of the Total Portfolio	Allowable Variation from the Percentage of Total Portfolio
Index Fund	50%	22%	+/- 4.5%
Large Cap Value	18%	7.5%	+/- 2.5%
Large Cap Growth	18%	7.5%	+/- 2.5%
Small Cap Value	7%	3.0%	+/- 1.5%
Small Cap Growth	7%	3.0%	+/- 1.5%

- (6) All transfers should be made in accordance with the cash management policy.

### **Liquidity**

The Board has authorized the Director of Retirement Services to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous section. If additional funds are required from the System's equity managers, the Director will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

### **Diversification**

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries.

Specifically, no single investment shall exceed the guidelines established under the Manager and Securities Guidelines section.

As a general rule, System assets placed with an investment manager will not represent more than 10% of that manager's assets.

The Board will select appropriate investment managers to manage the System's assets. Manager candidates must meet the following minimum criteria:

- (1) Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- (2) Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- (3) Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- (4) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel and demonstrate financial and professional staff stability. This information can be a copy of a recent Request For Proposal (RFP) completed by the manager.
- (5) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
- (6) Selected firms shall have no outstanding legal judgments or past judgments which may reflect negatively upon the firm.

In addition, Subsection B and C of Sections 3.28.375 and 3.24.370 of the San Jose Municipal Code entitled "Investment Counseling Restrictions" states that the Board may enter into any contractual arrangements with the following persons or associations:

- (a) Any person or association whose principal business consists of investment counseling services;
- (b) Any person or association who is a registered investment adviser under such laws as may require such registration.
- (c) With respect to real estate advisors, the Board shall enter into contractual arrangements only with persons or associations whose principal officers are engaged in the business of advising and evaluating commercial, industrial or residential real estate investments, mortgage banking, or property management, and which are duly licensed to perform real estate advisor services in the jurisdiction where the real property is located.

### **General**

Every investment manager selected to manage the System's assets must adhere to the following guidelines.

- The investment manager will at all times be expected to exercise due diligence regarding his/her account and to perform in a prudent manner and within the specific terms of appointment.
- The manager will have full discretion to direct and manage the investment and reinvestment of assets in accordance with this document, applicable federal and state statutes and regulations, and the executed contract.
- Benchmarks shall be specified for the investment manager. It is expected that the managers will adhere to the style concepts and the investment principles that were in use at the time the Board appointed the firm to manage a portion of the System's assets.
- It is the Board's desire that an investment manager be fully invested in his/her own asset class. However, the manager shall retain the discretion to invest a portion of the assets in cash reserves. (Procedure 451) The Board prefers that the managers hold under 6-7% cash. Any manager who holds over 7% in cash on average over two months, the manager shall notify staff in writing. If market conditions dictate, the manager may exceed 10% cash holdings, with written approval of the Director of Retirement Services. The manager will be evaluated against their peers on the performance of the total assets under their management. Any intent to deviate from this strategy should be communicated to the Board prior to implementation.
- Turnover standards shall be set whenever it is appropriate to the investment manager's style, the asset class, or the return target. Trading expenses shall be minimized and managed by the investment manager and all transactions shall be governed by general "best execution" guidelines.
- Transactions that would jeopardize the tax-exempt status of the System are not allowed.
- The Board has the authority to "vote" on all issues presented to stockholders, but as a matter of practice will designate an authorized third party to vote the proxies. It is expected that the designee will vote for the sole purpose of benefiting the beneficiaries of the Plan and in accordance with the adopted general proxy voting guidelines.
- The investment manager is expected to comply with all laws, regulations, and standards of ethical conduct.

**Domestic Equity Securities:**

The primary emphasis of the domestic equity portfolio will be on high quality, readily marketable securities. The investment managers employed to manage domestic equity securities will have discretion in the day-to-day management of funds under their control, subject to the following guidelines:

- (1) Domestic equity security (with the exception of preferred stocks) shall be traded on a national exchange (including NASDAQ) and be substantially diversified.
  - Investment in any corporation shall not exceed 5% of the outstanding shares of that corporation.
  - Not more than 5% of the total assets at market value may be invested in preferred stocks.
  - Not more than 5% of the total assets at market value shall be invested in the common stock of any corporation.
- (2) The following transactions are prohibited:
  - Purchase of stocks that are not publicly traded.
  - Purchase of restricted stock.
  - Short sales and purchases of securities on margin.
- (3) Equity securities in general shall possess value and quality corroborated by accepted techniques and standards of fundamental and technical analysis.
- (4) Holdings of individual issues shall be large enough (round lots) for easy liquidation
- (5) American Depository Receipts (ADR's ) and Real Estate Investment Trusts are permitted equity investments.

**Cash Investments**

The following investment vehicles are approved for the investment of short-term funds of the Federated City Employees Retirement System:

- (1) All U.S. Government and federal agency issues

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- (2) All U.S. Dollar denominated foreign commercial paper that is rated either A1 or P1 by Moodys or by Standard & Poors. If the issuer had public debt outstanding, said debt must not be rated below the top three letter ratings (AAA, AA, A) of either Moodys or Standard & Poors
- (3) If the issuer of commercial paper (CP) is a bank, purchase of its CP is approved only when purchase of its certificates of deposit (CD's) is also approved
- (4) Domestic and foreign Certificates of Deposit (CD's) and Banker's Acceptances
- (5) Repurchase Agreements with banks and with broker-dealers registered under the Securities and Exchange Act of 1934
- (6) Reverse Repurchase Agreements - Only upon the specific approval of the Retirement Board
- (7) Insured time deposits
- (8) The custodial bank's Short Term Investment Fund provided that said Fund satisfies the requirements of 1 through 7 above

### **Domestic Fixed Income:**

The domestic fixed income portion of the System's assets shall generally be invested in investment grade, marketable, fixed-income securities, although up to 15% investment in BB or B securities will be permitted with written authorization of the Board. The investment managers employed to manage domestic fixed-income securities will have discretion in the day-to-day management of the funds under their control. The following instruments are acceptable for purchase:

- (1) Commercial Paper or Variable Rate notes of P-1 or equivalent rating. Pools containing lower quality issues of this security type (P-2 and P-3 or equivalent ratings) may be used where diversification reduces the quality risk.
- (2) Certificates of Deposit and Bankers Acceptances.
- (3) United States Treasury Bonds, Notes and Bills.
- (4) Repurchase agreements with U.S. Treasury securities and agencies of the U.S. Government as collateral. No reverse repurchase agreements will be allowed without specific written approval by the Board.
- (5) Debt instruments of the U.S. Government or its agencies.

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- (6) “Yankee” bonds issued by foreign countries and denominated in dollars so long as they are rated Baa/BBB or better by Moody’s or Standard & Poor’s.
- (7) Public Improvement Bonds of San Jose that are rated Baa/BBB or better by Moody’s or Standard & Poor’s.
- (8) Investment grade U.S. pay corporate debt issues including those rated Baa/BBB or better by Moody’s or Standard & Poor’s. Should a current holding fall below this standard, the manager shall immediately notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. However, investments in non-investment grade securities of BB or B classification will be permitted up to 15% with written authorization of the Board.
- (9) If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the Manager is permitted to hold up to 2% in aggregate market value of these securities in the portfolio, using the lower of S&P and Moody’s rating in the event of a split-rated security. The Manager will continue to notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. The Manager will also provide quarterly reporting on the downgraded securities.
- (10) The manager may invest a portion of the assets in commingled accounts with specific mandates such as high yield trust funds with written authorization by the Board.

The Fixed-Income investments shall be appropriately diversified. The investment manager may engage in “active” bond management and it is therefore anticipated that there may be turnover as shifts are made between and within sectors, quality and maturity.

No more than 10% of a single manager’s assets shall be invested in securities of any single issuer with the exception of the U.S. Government and its agencies.

Holdings of individual issues shall be large enough (round lots) for easy liquidation.

### **International Equity Securities:**

The primary emphasis of the international equity portfolio will be on non-U.S. common stocks. The investment managers employed to manage international equities will have discretion in the day-to-day management of funds under their control subject to the following guidelines:

- (1) Investments are to be made primarily in common stocks in markets outside the U.S. Investments in American Depository Receipts (ADR’s) are permitted.
- (2) The number of issues held, their geographic and economic sector diversification shall be left to the investment manager’s discretion provided, however, that the portfolio shall be appropriately diversified as consistent with the manager’s stated investment approach. (Allocations to any specific country shall not be more than twice the weighting relative to a

broadly diversified international equity manager peer group, up to a maximum of 40% in any one country.)

- (3) Upon approval by the Board, up to 15% of the international equity portfolio may be invested in non-EAFE markets.
- (4) The following transactions are prohibited:
  - Purchase of stocks not publicly traded
  - Purchase of restricted stocks
  - Short sales and purchases of securities on margin
- (5) The manager may enter into currency exchange contracts (forward exchange or future) provided that such contracts have a maximum maturity of one year. Furthermore, any currency hedging shall be limited to a defensive posture only. The use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. There shall be no direct foreign currency speculation or any related investment activity. Cross-hedging will be permitted. Securities held in the portfolio may be denominated in any currency at the discretion of the investment manager. The manager may defensively hedge currency, including any cross hedging, up to 30% of the portfolio market value. The investment manager will include in his/her quarterly report to the Director of Retirement Services and the Board a report on the status of the outstanding hedged positions.

**International Fixed-Income:**

The international fixed income portion of the plan assets shall be invested in investment grade, marketable, fixed-income securities. The investment managers employed to manage international fixed-income securities will have discretion in the day-to-day management of funds under their control. Securities must meet the following criteria:

- (1) Short-term reserves (cash and cash equivalents) may be held in U.S. dollar denominated obligations and/or temporary investment vehicles or may be held in obligations and temporary investment vehicles denominated in foreign currencies.
- (2) Fixed-income securities shall be non-U.S. dollar denominated.
- (3) All instruments at the time of purchase shall be investment grade. Should a current security fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for disposition of the instrument.

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- (4) The number of issues held, their geographic and economic sector diversification shall be left to the investment manager's discretion provided, however, that the portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.
- (5) No more than 10% of the portfolio shall be invested in obligations of a single non-governmental issuer. Investments in emerging debt will only be permitted with the express and written authorization of the Board
- (6) The manager may enter into currency exchange contracts (forward exchange or future) provided that such contracts have a maximum maturity of one year. Furthermore, any currency hedging shall be limited to a defensive posture only. The use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. There shall be no direct foreign currency speculation or any related investment activity. Cross-hedging will be permitted. Securities held in the portfolio may be denominated in any currency at the discretion of the investment manager. The manager may defensively hedge currency, including any cross hedging, up to 50% of the portfolio market value. The investment manager will include in his/her quarterly report to the Director of Retirement Services and the Board a report on the status of the outstanding hedged positions.

### **High Yield Bonds and Bank Loans:**

The High Yield Bonds and Bank Loans portion of the plan assets shall be invested predominantly in below investment grade securities and bank loans. The investment managers employed to manage high yield and bank loan instruments will have discretion in the day-to-day management of funds under their control. The High Yield and bank loan managers shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

- (1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the Investment Manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.
- (2) U.S. corporate bonds, including zero-coupon, step-up, convertible, toggle and pay-in-kind bonds and Non-dollar corporate bonds (which should be hedged), Private placement securities, Bank loans, participations and assignments.
- (3) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds / euro bonds)
- (4) U.S. Treasury futures, Currency forward or futures contracts, and Credit default swaps may be used for hedging purposes.

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- (5) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.
- (6) The number of issues held, the sector and the industry diversification constraints shall be detailed in each manager's investment guidelines. The portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

### Convertible Bonds:

The Convertible Bonds portion of the plan assets shall be invested predominantly in convertible securities. The Manager may invest in investment or non-investment grade rated U.S. and non-U.S. convertible securities, including convertible bonds; convertible preferred stock; bonds or preferred stock with warrants; and zero- and low-coupon convertibles across the entire credit quality spectrum. In addition, the investment manager can utilize convertible structured notes issued by third parties, as well as synthetic convertible securities created by the investment manager. The investment manager(s) employed to manage the convertible instruments will have discretion in the day-to-day management of funds under their control. The convertible bond manager(s) shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

- (1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the Investment Manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.
- (2) U.S. Treasury's, U.S. corporate bonds, including zero-coupon, step-up, toggle and pay-in-kind bonds and Non-dollar corporate bonds (which should be hedged), Private placement securities, Bank loans, participations and assignments.
- (5) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds / euro bonds)
- (6) U.S. Treasury futures, Currency forward or futures contracts, and Credit default swaps may be used for hedging purposes.
- (7) No more than 5% of the portfolio shall be invested in obligations of a single non-governmental issuer at cost, and 8% at market value.
- (8) The portfolio shall be appropriately diversified by the number of issues held, sector, industry and country weightings, consistent with the manager's stated investment approach.
- (9) The general position of the portfolio is to be hedged from a currency perspective.

**Real Estate:**

The Board may elect to invest in commercial, industrial, and residential real estate or real estate related debt instruments provided that:

- (1) The real estate is defined as any real property within the United States improved by multifamily dwelling, industrial or commercial buildings.
- (2) Real estate debt instruments shall be defined as first mortgages.
- (3) The fund shall at no time invest directly more than 5% of the Fund's assets, valued at market, in any one property, project, or debt instrument regardless of the manner of the instrument.
- (4) The investment advisors employed by the Board to assist in the location and acquisition of real estate must bring their proposal to the Board for approval. Any such proposal must be approved by an affirmative vote of four (4) of the Board members before any funds may be invested.

**Private Markets**

Subject to specific approval of the Investment Committee of the Board of Administration, investments may be made for the purpose of creating a diversified portfolio of private markets. Examples of such private markets investments include, but are not limited to, venture capital partnerships, leveraged buyout funds, private debt, and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-US investments, with a primary focus on Europe. Investments may be made in secondary investments on an opportunistic basis.

It is expected that these investments will typically be structured as Limited Partnerships, with Federated City Employees' Retirement System serving as one of the Limited Partners, but not as a General Partner. It is also expected that the Plan will not engage in direct investments or co-investments, in which the Plan would purchase majority control in individual corporate entities.

Funds that are committed to said Limited Partnerships, but not yet drawn down by the General Partner, may be invested in the Plan's equity funds, as the risk/reward characteristics of these funds most closely match those of the Limited Partnerships.

The following sub-category allocations were derived to be consistent with the investable universe within private markets. The ranges reflect long-term averages, once the 3% allocation to Private Markets has been fully committed. During the initial investment period, approximately four to six years, it is expected that sub-category allocations may fall outside the approved ranges.”

## **Manager and Securities Guidelines** Statement of Investment Policy – 05/14/2009

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<b>Sub-Category*</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Buyouts	40%	60%	70%
Venture Capital	20%	30%	50%
Debt-Related	0%	10%	20%

\*International allocations and secondary investments are reflected within each sub-category

### **Credit Unions**

No retirement fund monies shall be deposited in any institution in excess of an amount insured by an agency of the Federal Government, and shall be made only if the rate of return and degree of safety offered are competitive through other investment opportunities.

## **Supervision**

The Investment Manager shall continually supervise the investment securities in the Fund, and shall purchase, sell, substitute, redeem, or convert securities as they should deem advisable.

**Brokerage Policy** (This section is currently under consideration and is subject to change.)

All transactions effected for the System will be "subject to the best price and execution." The lowest commission rate need not mean the best realized price. Execution capability, price and overall effectiveness shall be considered, along with commission rate.

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the System assets without prior written approval by the Board.

If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

The Plan's investment managers shall follow the direction of the Board. It is the policy of the Board to instruct the investment managers to direct transaction orders to particular broker-dealers, including equity, fixed income, both domestic and international. The instructions from the Board currently is for the investment managers to direct as much as possible of the Plan's commission business as is practicable, subject to the best price and execution. The instruction and direction is to be construed within the normal activity of the investment manager, with no increased or decreased trading activity to occur because of the instruction. Where given discretion to establish and execute transactions through accounts with one or more broker-dealer firms as it may select, the manager must attempt to obtain "best available price and most favorable execution" with respect to all of the portfolio transactions.

Soft Dollars accumulated through the System's brokerage program may be used to pay for any System expense permitted under the regulations of the Department of Labor (including, but not limited to, legal, accounting, education, management, etc.) and approved by the Board.

**Performance Objectives**

Investment performance will be measured quarterly but it is not expected that the performance goals identified below will be satisfied in any single quarter or year. It is expected that these goals will be satisfied over a rolling five-year period or a full market cycle. However, action by the Board with regard to retention or dismissal of investment managers is not precluded by virtue of these time periods.

**Total Fund Investments**

The total fund’s performance, in aggregate, will be expected to achieve a rate of return which exceeds a fund benchmark representative of the Asset Allocation objective as follows:

<b>BENCHMARK</b>	<b>Allocation</b>
Russell 1000	26%
Russell 2000	7%
Morgan Stanley Capital International EAFE	20%
Barclays Capital Aggregate Bond Index	22%
Citigroup World Government Bond Index	5%
Credit Suisse First Boston Leveraged Loan Index	3%
Merrill Lynch High Yield Master Index	3%
Merill Lynch Global 300 Convertible Index	3%
NCREIF Property Index	6%
Private Markets (Benchmark to be determined)	5%

(Procedure 452)

Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return which exceeds an appropriate index over rolling five year periods.

Managers are considered to have achieved this objective if their performance meets all guidelines on a cumulative five year annualized period. If the performance is longer than five years, the manager is expected to satisfy the performance objectives in a majority of the rolling five year periods.

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception. Their performance in any period should not be below the 62nd percentile.

If managers with less than five years experience with the Fund fail to meet any investment objectives, the following should be applied:

- If a manager fails to meet investment objectives for one or two consecutive quarters, this may not be a cause for concern.

- If a manager fails to meet investment objectives for three consecutive quarters, they merit probationary status.
- If a manager fails to meet investment objectives for four consecutive quarters, they should be critically reviewed by the Board and considered for termination. The Board may grant the manager an extended probation after officially recognizing the substandard performance.

### **Fixed-Income Investments**

The objectives for investment managers of the domestic fixed-income component of the total portfolio are:

- (1) Earn an average annual return from income and capital appreciation which exceeds the Lehman Aggregate Bond Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad fixed-income manager database.
- (3) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

### **Domestic Equity Investments**

The objectives for investment managers of the domestic equity component of the total portfolio are:

- (1) Achieve returns which exceed an appropriate index, (i.e. S&P 500, NASDAQ, etc.) over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve returns that will rank in the top half of a broad database of domestic equity managers.
- (3) Achieve performance results which will rank in the top half of investment managers which utilize a similar investment style.

### **Passive Equity Investment**

The objective for investment managers of the passive domestic equity component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

## **International Equity Investments**

The objectives for investment managers of the international equity component of the total portfolio are:

- (1) Achieve returns which exceed that of the Morgan Stanley Capital International Europe, Australia, Far East Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve returns that rank in the top half of a broad international equity manager database.
- (3) Achieve performance results in the top half of investment managers which utilize a similar style of investment.

## **International Fixed-Income Investments**

The objective for the investment managers of the international fixed-income component of the total portfolio are:

- (1) Achieve rates of return which exceed the Salomon Brothers World Government Non-Dollar Bond Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad international fixed-income manager database.
- (3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

## **High Yield and Bank Loan Investments**

The objective for the investment managers of the High Yield and Bank Loan component of the total portfolio are:

- (1) Achieve rates of return which exceed either the Merrill Lynch US High Yield Master Index or the CSFB Leveraged Loan Index over rolling five year time periods net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad high yield manager database.

- (3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

### **Convertible Bond Investments**

The objective for the investment managers of the Convertible Bond component of the total portfolio are:

- (1) Achieve rates of return which exceed the Merrill Lynch Global 300 Convertible Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.
- (2) Achieve performance results that will rank in the top half of a broad Convertible Bond manager database.
- (3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

### **Real Estate Investments**

- (1) Achieve returns which exceed an appropriate index, (i.e. NCRIF) net of fees over a market cycle
- (2) The real estate manager(s) will be expected to achieve returns that rank in the upper half of a broad universe of real estate funds.

### **Monitoring of Money Managers**

(Procedure 460)

It is the Board's policy to monitor the portfolios of the investment managers for prudent adherence to the approved performance guidelines. Quarterly performance will be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles. In addition, manager holdings will be periodically monitored to ensure that they are adhering to expected investment styles and disciplines.

On a timely basis, but not less than four times a year, the Board will meet to focus on:

- Manager's adherence to the IPS guidelines;
  - Material changes in the manager's organization, investment philosophy and/or personnel;
- and,

- Comparisons of the manager's results to appropriate indices and peer groups as described in the performance objectives and control section.

The risk associated with the manager's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

Major organizational changes also warrant immediate review of the manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the System's investment managers will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

### **Periodic Reviews of Manager Performance**

The performance of each manager will be reviewed versus its benchmark every quarter. These benchmarks consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark and each manager should be above the median of an appropriate universe.

As good managers will occasionally have poor performance for several periods, there is some grace period permitted for performance to improve. Conversely, the performance will be reviewed with sufficient frequency to permit identification of substandard performance as quickly as possible.

Procedure:

1. Each manager is expected to produce performance equal to or better than their benchmark index for one year, three year, and five year cumulative periods.

Managers are considered to achieve this objective if their performance exceeds their benchmark for two of the three periods of one year or longer.

2. The expectation to produce above median performance in an appropriate peer group for one year, three year, and five year cumulative periods will be factored in only when the majority of investment managers are underperforming the benchmark.

Managers are considered to achieve this objective if they rank above the median manager for two of the three periods of one year or longer and the performance in the third period is not less than the 62nd percentile.

3. If a manager has less than five years performance, we will review the periods reported by the consultant, such as one quarter, one year and since inception. However, no action will be taken for placement on the watch list until two years after inception date.
4. If there is a failure to meet the performance objective, the following rules should be applied:
  - a) A manager's (with at least two years of performance since inception) failure to meet their objective for four successive quarters will place the manager on the watch list. If a manager is consistently on the borderline, sometimes meeting objectives and sometimes failing to meet objectives, the manager may be placed on the watch list.
  - b) During the next four quarters, the manager's performance will be closely monitored to see it is warranted for the manager to be placed on probation.
  - c) A manager placement on probation should result in review by the Investment Committee. Upon a critical review of the manager, the Investment Committee may grant up to one year further for improvement to take place upon officially recognizing the substandard performance and explicitly granting an extension of time for improvement. At the time of granting such extraordinary extension, the Investment Committee may delegate to the Director, Retirement Services, the authority to direct the manager to immediately suspend all trading except as specifically directed by the Director. If there has been improvement in performance, the Investment Committee may extend the probation beyond one year.

During the period of any such extraordinary extension, the investment staff should monitor the portfolio and transactions of such manager to ensure that excessive risk is not being taken in an attempt to "catch up". If in the judgment of the Director, such manager is managing the portfolio in such a manner that indicates that excessive risk is being taken, the Director should use the previously delegated authority to terminate or restrict the manager's activities.
5. In order to be taken off probation and placed on the watch list, a manager must beat their benchmark for 2 successive quarters (i.e. March and June OR beat their benchmark at one-year following four quarters of good performance).
6. In order to be taken off the watch list, a manager must beat their benchmark for an additional 2 successive quarters (i.e. September and December) OR have an additional four quarters of good performance.

## **Extraordinary Reviews of Managers**

If an event occurs within a manager's organization or is likely to impact the manager's organization, the Director, Retirement Services, shall make a determination whether such event compromises the investment process or in any other manner might negatively impact the management of the Plan's assets.

Such events would include but are not limited to:

- a) Loss of any significant investment professional directly involved with the management of Plan assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.
- b) Sale, offer for sale, or offer to purchase the manager's business to/by another entity.
- c) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.
- d) Filing or announcement of regulatory action of non-trivial nature, particularly that involving violations of the Investment Advisers Act of 1940, the Securities Act of 1933, or the Securities Exchange Act of 1934, or any state Blue Sky Law to which the manager is subject.
- e) Any other event which in the discretion of the Director appear to put the Fund's assets at risk of loss, either actual or opportunity.

Any of these events may trigger a due diligence visit to the firm by the Investment Committee, being placed on the watch list, being put on probation or termination depending on the seriousness of the event and the probability of impacting the management of the Plan's assets.

## **Proxy Voting Guidelines**

This section sets forth the general policy and procedures of the Board with regard to the voting of proxies. The Board has delegated its proxy voting authority on all domestic securities to the authorized third party. The international managers are responsible for voting the proxies on all international securities, and shall provide a report to the Board. At this time, the Board believes proxy voting to be a significant responsibility and this statement provides the Board's perspective on this matter.

The Board strongly believes that proxies must be voted in the best interest of the shareholders. The authorized third party will vote in accordance with the fiduciary responsibilities pursuant to the adopted proxy voting guidelines between the authorized third party and the Board and within prudent standards.

**Derivatives**

Derivatives are defined as investment instruments which “derive” value from an underlying commodity, index or security. Examples include futures, options, and collateralized mortgage obligations (CMOs).

Investment managers and the custodial trustee may use derivative securities in the following manner so long as the inclusion of such instruments is consistent with the strategy originally specified when the firm was initially retained.

- It is recognized that index futures contracts can provide a cost effective means of maintaining an asset allocation or equitizing a portfolio in the event of a manager termination or transfer. The Board retains the right to review the specific use of these securities under special circumstances. The active investment managers are not expected to market time by increasing or decreasing cash positions. Therefore, these managers are not currently permitted to use options or futures.
- An international System manager may defensively hedge currency as a part of the investment management and risk reduction process and as described in the Section VII provisions pertaining to the international equity and fixed income managers. Currency forward or futures contracts may be used in this process.
- New York Stock Exchange listed American Depository Receipts (ADRs) may be used by the domestic equity managers for up to 10 % of the portfolio investments at cost. The international equity manager may use ADRs in place of the foreign securities when their research indicates the ADR issues are more attractively valued.
- The fixed-income investment manager may include GNMA, FNMA, and FHLMC mortgage-backed instruments as well as asset backed securities in the portfolio. Inverse floating, interest only and principal only CMO derivatives, or other highly volatile instruments are prohibited.
- The custodian bank is prohibited from using instruments which are not deemed to be appropriate by the Securities Exchange Commission (SEC) for use in a money market System. Floating rate instruments which do not approximate par at reset would be an example of such a prohibited instrument. Additionally, inverse floating and other highly volatile instruments are prohibited.

**Securities Lending**

If so approved by the Board, the Plan may participate in a securities lending arrangement with the current trustee or a third party. The primary purpose of a securities lending program will be to increase the return on the Plan’s portfolio of securities by authorizing the trustee to lend securities to one or more stated borrowers.

## **Short Term Investments**

The investment policies and guidelines for short term investments shall be applicable to all functions involving the investment of cash balances (idle, frictional and manager cash balances for sweeps) and securities lending cash collateral. The Investment Manager shall have full discretion over short term investments selected, but will comply with the following policies and guidelines. Any exceptions may be considered only with Board approval.

## **Short Term Cash Management**

The investment objective shall be the preservation of principal and achieve consistent, favorable yields in all types of market conditions through diversification of investment instruments, maturities, and issuers, while maintaining investment grade quality.

A stable Net Asset Value (NAV) objective is of paramount importance. SEC Rule 2a-7 under the Investment Company Act of 1940 shall be applied in the management of interest rate risk, even if the specific investment vehicle or fund of the Investment Manager is not governed by SEC Rule 2a-7.

In addition, the Comptroller of the Currency Regulation 9 shall be established for the basic structure of a STIF fund including all requirements to be in compliance. The general investment guidelines are as follows:

- The Investment Manager shall identify the specific fund they intend to invest idle cash balances and the securities lending cash collateral of the Plan.
- Loans are to be collateralized by cash or securities issued or guaranteed by the U. S. Government.
- The collateral received must equal at least 102% of market value plus accrued interest.
- Loan maturities cannot stretch beyond one year, and no more than 15% of the portfolio can be lent longer than six months.
- Brokers used within the securities lending program shall be evaluated based on credit analysis.
- Cash collateral can be invested only in the following investment vehicles:
  - a. U.S. Government Obligations

- b. Bank obligations including certificates of deposit, time deposits, bankers' acceptances, medium term notes, or deposit notes where the guarantor is rated "A" or better by qualified rating agencies.
- c. Commercial Paper and other Short Term securities including loan participation provided the issuer or guarantor is rated "A1" or "P1"
- d. Corporate and other Debt Obligations including high grade fixed, floating and variable rate notes, variable rate demand obligations (Master Notes) and medium term notes with a credit quality of "A" or better.
- e. Repurchase Agreements with respect to Government securities, but only with banks and broker-dealers registered with the SEC. Such instruments should be overnight, collateralized at 102% using the above securities.
- f. Money Market Mutual Funds registered with the SEC, as long as their guidelines are in conformance with the System's investment guidelines.
- g. Derivative investments are not permitted, including highly leveraged structured notes such as inverse floaters, CMT floaters, range floaters, dual index floaters, and other speculative instruments tied to inappropriate reset provisions.
- h. Non US investments and NON-US collateral will not be considered without Board approval.

In addition, the guidelines set forth the following parameters for diversification, maturity, and liquidity:

- a. No more than 5% of the portfolio can be exposed to term obligations of any one issuer unless they are U. S. Government obligations.
- b. A minimum of 20% of the portfolio must be invested in overnight instruments.
- c. The maximum maturity for any one investment shall not exceed 24 months. The weighted average maturity of the reinvestment portfolio shall not exceed 180 days.

### **Securities Lending Program**

In addition to the above policies and guidelines applicable to cash collateral management emanating from securities lending, the following securities lending policies and guidelines shall be followed.

It is the policy of the fund that revenue generated from securities lending should not be a driving force behind policy formulation. Rather the management of risk and the consistent application of investment prudence across functions essential for the safety and success of the program. Although the Investment Manager operates within an agent relationship for securities lending, investment discretion shall be provided for the benefit of the plan and within prudent guidelines.

The investment objective for the securities lending program is to generate optimal incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification and tightly controls exposure to fluctuating interest rates.

The securities lending process shall be transparent to other investment managers. Marking to market shall be performed and the diligent maintenance of collateral.

The asset/liability management of loans and investments (gap management) shall be performed consistently and with the proper application of prudence. The duration of loans and assets (gap positions) shall be reported by the Investment Manager on a monthly basis.

The Investment Manager shall perform ongoing credit analysis of brokers and establish concentration limits. Broker default indemnification, provided by the Investment Manager, shall not relieve the Investment Manager from on-going credit review.

## **Communication and Reporting**

The investment manager(s) are responsible for frequent and open communication with the Board on all significant matters pertaining to investment policies and the management of the System's assets. Some of the key reporting responsibilities include the following obligations. The Investment Manager will:

- Meet with the Board to discuss the economy and the securities markets to assist the Board in determining and re-examining basic investment policies.
- Review the policies between meetings in light of changing market conditions or changes in the requirements of the Fund and recommends the appropriate actions to the Board.
- Prepare quarterly appraisals giving a listing of securities held and showing the composition, average cost, and market values of the assets under supervision.
- Report major changes in the investment manager's investment outlook, investment strategy, and portfolio structure
- Report any significant changes in the ownership, organization structure, financial condition, or senior personnel of the investment manager

- Provide monthly transaction and valuation reports, including an accounting of the hedging activity during the period as well as a report on the use and status of derivatives during the period.
- Ensure that all documents, exhibits, and written materials are received by the Director of Retirement Services at least two weeks in advance of any meetings.
- Provide the Board with a description of how plan assets are protected in the event of a breach of fiduciary duty, including proof of any liability and fiduciary insurance coverage
- Acknowledge in writing the ability and agreement to invest within the guidelines set forth in this investment policy
- Advise the Board of any change in the portfolio manager assigned to the account
- Meet with the Committee at least annually
- Provide a monthly reconciliation report, reconciling the statement of assets between the manager and the custodian.

