

**Investment Policy Statement
For
The City of Pontiac
General Employees Retirement System**

**Revised September 23, 2009
Revised August 23, 2011
Revised April 25, 2012
Revised November 19, 2013**

BACKGROUND AND OVERVIEW

CITY OF PONTIAC GENERAL EMPLOYEES RETIREMENT SYSTEM

I. INTRODUCTION

A. Overview

1. Address: City of Pontiac, Michigan
General Employees Retirement System
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7. Custodian Northern Trust
8. Auditor Plante & Moran
9. Tax ID Number 38-6058737
10. System Year End December 31st

- B. The City of Pontiac, Michigan sponsors this defined benefit pension plan in order to provide participants with a source of retirement income. The System was first established in 1946 and has been amended since then from time to time.
- C. The System is comprised of three groups: General City Employees Division ("City"), the Stadium Authority Division ("Stadium"), and the North Oakland Medical Center Employees ("NOMC"). On December 31, 1993 NOMC was converted from a City institution to a private facility. As a result, employees of NOMC are terminated participants with vested rights and NOMC is no longer a contributing employer to the System.

II. SYSTEM PROVISIONS AND BENEFITS ELIGIBILITY REQUIREMENTS

- A. Full-time employees of the City or the Stadium Authority are eligible to participate in the System. Age and service requirements for normal retirement benefits vary for different employment groups that are covered by the System; the earliest retirement age is 50. Reduced retirement benefits are available for most participants for service less than 30 years.
- B. Participants are vested in accrued benefits with at least 10 years of service. Participants, or their beneficiaries, may also be eligible for System benefits as a result of death or disability. Retired participants may be eligible for post-retirement benefit adjustments after retirement based upon ordinance provisions or collective bargaining agreements.

III. CASH FLOW AND LIQUIDITY REQUIREMENTS

- A. The funding policy for the System is for the City, as plan sponsor, to assure an amount sufficient to cover both (1) the on-going normal cost of the System and (2) to finance any unfunded accrued liability as actuarially determined. The financial objective of such a policy is to maintain a stable contribution rate as a percent of payroll from year-to-year and to meet the Retirement System's benefit payment obligations over the long term. Disbursements from the System are for the payment of System benefits to members and expenses of the System.

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POLICY AND GUIDELINES

CITY OF PONTIAC GENERAL EMPLOYEES RETIREMENT SYSTEM

I. INTRODUCTION

A. Purpose of this Policy Statement

1. This policy statement outlines the goals and investment objectives for the City of Pontiac General Employees Retirement System (the "System"). This document is intended to provide guidelines for managing the System's assets. The policy will define guidelines and limitations for each asset class and for portfolios within each class.
 - a) Discusses appropriate risk/return parameters for the investment of the System's assets;
 - b) Establishes investment guidelines regarding the selection of investment managers, permissible investments and diversification of assets;
 - c) Specifies the criteria for evaluating the performance of the investment managers and of the System as a whole; and,
 - d) Defines the responsibilities of the Board of Trustees and other parties responsible for the management of the System's assets.
2. All objectives are based on a five to ten year investment horizon, so interim fluctuations should be viewed with the appropriate perspective. The Board of Trustees may make changes at any time they deem appropriate.
3. The Board of Trustees believes that the investment policies described in this statement should be dynamic. These policies reflect the System's funding status and the Board's philosophy regarding the investment of assets. These policies will be reviewed annually and revised as required.

II. REGULATORY ENVIRONMENT

- A. The System operates in accordance with all applicable state and federal statutes, specifically State of Michigan Public Act 314 of 1965 (See Appendix), as amended, the ordinances of the City of Pontiac and collective bargaining agreements.
- B. The State of Michigan Public employee Retirement System Investment Act of 1965 (PA 314) limits equity participation to no more than 70% of total asset market value and global investments to 20% of total asset market value.

III. ROLES AND RESPONSIBILITIES

A. Board of Trustees

The Board of Trustees (the "Board") is responsible for defining and implementing the investment objectives and policies for the System. It is expected that the objectives and policies described herein will be used as the criteria for selecting and evaluating the appropriate investment managers for the management of the System's assets. The Board has the responsibility to make changes in investment

policy and to implement approved policy, guidelines and objectives. These responsibilities shall include:

1. Establishing a long-term strategic and asset allocation policy for the System;
2. Monitoring and evaluating investment manager performance and adherence to policy guidelines, and the performance of the System as a whole;
3. Selecting or terminating investment managers ("Manager(s)"), consultants and the custodian for the System's assets;
4. Monitoring and controlling the costs of administering and managing the portfolio; and
5. Establishing a due diligence process and conducting site visits as necessary.

B. Executive Director

The Executive Director has been delegated the following responsibilities for the oversight of the System's assets:

1. Keeping the Board informed of any significant events that impact the System and may recommend changes in approved policy, guidelines and objectives;
2. The day-to-day oversight of the office operations;
3. Acting as the primary contact between the Board, the members, the Managers, investment consultants, auditors, custodian, and any other parties involved in the management of the System's assets; and
4. Such other duties as may be described in this policy, applicable State and Federal laws, or as delegated by the Board of Trustees.

C. Investment Consultant

The investment consultant shall act solely in the best interest of the System. The investment consultant retained by the Board is a prudent expert with all the attendant duties and responsibilities and shall have the following responsibilities to the System:

1. To assist the Board in strategic planning for the System. This includes providing assistance in developing an investment policy, asset allocation strategy, and investment manager structure;
2. To provide to the Board quarterly performance measurement reports on each of the Managers and on the System as a whole and to assist the Board in interpreting the results;
3. To act as a liaison between Managers and the System, and thereby facilitate the communication of important information in the management of the System;
4. Shall acknowledge in writing that they are a prudent expert and fiduciary for the System with all attendant duties and responsibilities;
5. Shall provide complete written disclosure of all fees or other compensation associated with its relationship with the system.
6. Such other duties as may be mutually agreed upon.

D. Custodian

The custodian of the System shall have the following responsibilities:

1. To hold securities and other investments in the name of the System or in the name of the nominee custodian or in bearer form;
2. To collect and receive income, interest, proceeds of sale, maturities, investments, deposit of all receipts in a custodial or checking account and reinvest these receipts as directed by the Board;
3. To make disbursements and transfers as directed by the Board;

4. To maintain accounting records and assist in preparation of reports required by the Board;
5. To settle purchases and sales and engage in other transactions, including free receipts and deliveries, exchanges and other voluntary corporate actions, with respect to securities or other property received by the Custodian;
6. To manage the securities lending program, if applicable; and
7. To perform other services for the Board as are customary and appropriate for custodians.

E. Actuary

The actuary for the System shall have the following responsibilities:

1. To perform annual actuarial and supplemental valuations to determine liability and funding requirements for the System;
2. To monitor the funding progress of the System;
3. To make appropriate recommendations regarding actuarial assumptions on a periodic basis; and
4. To perform special projects as mutually agreed.

F. Investment Managers

It is the intention of the Board to utilize separately managed accounts to implement the investment strategy of the System, where practical. Mutual funds or other commingled investment vehicles may also be used from time-to-time to implement the investment strategy of the System. The following guidelines apply to the Managers:

1. Fiduciary Responsibilities

- a) Each Manager is expected to manage the System's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with applicable State and Federal laws, including Michigan Public Act 314 of 1965 as amended. This would include discharging responsibilities with respect to the System consistent with "Prudent Expert" standards, and all other fiduciary responsibility provisions and regulations.
- b) Each Manager shall at all times be registered as an investment advisor under the Investment Advisers Act of 1940 (where applicable), and shall acknowledge in writing that they are a fiduciary of the System with respect to the assets they manage.
- c) Seek to obtain "best execution" with respect to portfolio transactions.
- d) Exercise ownership rights, where applicable, through proxy solicitations, doing so strictly for the economic benefit of the Fund. Managers shall provide documentation regarding the disposition of proxy solicitations to the Board upon request.
- e) Meet with the Board as needed upon request of the Board. Quarterly reports are to be submitted in writing within 30 days after the end of each quarter.
- f) Promptly inform the Board regarding all significant matters pertaining to the investment of the Fund assets.
- g) Initiate written communication with the Board when the Manager believes that this Investment policy is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and or objectives established in the Policy is permitted until after such communication has occurred and the Board has approved such deviation in writing.

- h) Reconcile performance, holdings and security pricing data with the Fund's custodian bank. In the event of a dispute, the custodian's values will be used.

2. **Security Selection/Asset Allocation**

- a) Except as in **Section VII Investment Manager Guidelines**, Managers shall have the discretion to determine their portfolios' individual security selections. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives.
- b) The System is expected to operate within the asset allocation strategy as defined by the Board. This strategy, described in Section V (B) below, sets a long-term percentage target for the amount of the System's market value that is to be invested in any one asset class. The allocation strategy also defined the allowable variances between the asset classes, above and below the target allocations.
- c) The Board is responsible for monitoring the aggregate asset allocation, and shall rebalance to the target allocation on a periodic basis.

3. **Placement Agents Policy**

The System adopts this policy to require broad, timely, and updated disclosure of all placement agent relationships, compensation and fees. The goal of this policy is to help ensure that the System's investment decisions are made solely on the merits of the investment opportunity by individuals who owe a fiduciary duty to the System.

The policy will be effective August 26, 2009 for GERS and applies to any new agreements after that date and to existing contracts for investment vehicles for which (1) the term of the agreement is extended, (2) funding is increased, or (3) there are changes to the substantive terms of the agreement.

a) **Disclosure**

All external investment managers must provide extensive disclosure regarding their use of placement agents to the consultant when investment discussions are initiated. The disclosure should include:

- A statement as to whether the external investment manager or anyone affiliated with it has agreed to compensate any placement agent in connection with a System investment.
- A resume for each officer, partner or principal of the placement agent, with specific note made of any affiliation of such persons or members of their immediate families with the System.
- A description of any agreed compensation to placement agents, and any agreed compensation to employees of the external investment manager retained to solicit an investment from the System and paid based on investment commitments secured.
- A description of the services to be performed by the placement agent and a statement as to whether the placement agent is used by the external investment manager for all prospective clients or only for a subset.
- A copy of any agreement with the placement agent.

- The names of any persons currently or formerly affiliated with the System who suggested the retention of the placement agent.
 - All disclosures must be affirmed at closing.
- b) **Registration**
The policy requires that placement agents used in connection with System investments be registered with the SEC or FINRA.
- c) **Sanctions for Violations**
The policy required that external investment managers agree, in the event of a material omission or inaccuracy in placement agent disclosure or other violation of the policy to reimburse the System for the greater of (1) any management or advisory fees for two years or (2) the amounts paid or promised to the placement agent.

External investment managers must also agree to allow the System to terminate investment management contracts immediately in the event of a violation of the policy without penalty to the System.

- Public equity managers: termination of the investment management agreement. If the investments are not held by the System's custodian, the System will have the option of receiving a distribution of securities or requiring that the investment manager make payment to the System in cash.
- Private equity managers: termination of the System's obligation to make future capital contributions.
- Real estate opportunity funds: termination of the System's obligations to make future capital contributions.
- Other real estate investments: removal of the General Partner, forfeiture of its carried interest and termination of the System's obligation to make future capital contributions.

In each case, termination of the relationship shall occur either immediately or on such date as the System shall, in its sole discretion, specify. All contracts entered into by the System will contain language providing for such termination.

IV. INVESTMENT GOALS AND OBJECTIVES

- A. The funding obligations of the System are long-term in nature; consequently the investment of the System's assets should have a long-term focus. The System's assets shall be invested in accordance with sound investment practices that emphasize long-term fundamentals. The investment objectives for the System's assets are:
1. To protect the System's assets in real terms such that the assets are preserved for providing benefits to participants and their beneficiaries;
 2. To achieve returns that meet the actuarial assumptions and improve the future soundness of the System;
 3. To meet the System's obligations, including actuarial interest assumptions, expenses and benefit payment obligations;
 4. To prudently diversify the System's assets in order to reduce risk;

5. To establish policies based on total return rather than current income, thus providing flexibility and the greatest opportunity for asset growth;
 6. To achieve investment results over the long-term that compare favorably with those of other public pension plans, other professional investment managers and of appropriate market indexes as determined by the Board.
- B. It is expected that these objectives can be obtained through a well-diversified portfolio structure in a manner consistent with this investment policy.
- C. The Board has adopted an overall investment objective for the System's assets. The objective is to earn long-term returns comprised of capital appreciation and current income sufficient to fund current benefit payments and other disbursements and maximize the assets.
- D. The Board will monitor the System's performance on a quarterly basis with the goal of achieving returns higher than the Policy Index and ranking in the top half of the appropriate public funds universe. The policy or primary benchmark index will be a weighted average of the name indices by asset class defined below. A secondary performance target is inflation (U.S. All Urban Consumer Price Index, "CPI") plus 4%. The Board, with the assistance of the consultant, will evaluate each Manager's contribution toward meeting the investment objectives outlined below on a quarterly basis.

V. ASSET ALLOCATION

A. Permissible Investments

In fulfilling the investment objectives set forth above, the Fund's assets may be invested in the following types of investments:

1. Domestic Equity Investments are permitted and may include common stocks traded over-the-counter or on a domestic stock exchange. Convertible bonds, preferred stocks, warrants and rights may be purchased as equity substitutes so long as the underlying equity meets with applicable standards. American Depository Receipts (ADRs) and dual listed foreign stocks, which are dollar denominated foreign securities traded on domestic U.S. stock exchanges, may be held by each domestic equity Manager to a maximum of 10%. A Manager should not purchase securities for the Fund unless the Manager has determined that the securities to be purchased are of a quality suitable for the account.
2. Domestic Debt Securities are permitted and may include U.S. Government and Agency obligations, corporate bonds, asset backed securities, agency guaranteed mortgage pass-through securities and low risk collateralized mortgage obligations of comparable or lower risk, such as Planned Amortizations Class Level 1 and Sequentials, commercial paper, certificates of deposit. Managers may also invest in U.S. dollar denominated issues of international agencies, foreign governments and foreign corporations (i.e., Eurodollar and Yankee bonds).
3. International Investments are permitted and may include equity and fixed income securities. International investments shall only be entered into through the selection of a qualified investment management organization as consistent with fiduciary responsibilities. An international Manager employing an active

- currency management program may, upon specific authorization of the Board, deal in futures and options within the discipline of that currency management program.
4. Real estate investments are permitted and may include both debt and equity investments. The Trustees may invest in real estate by appointing a registered Investment Manager or by utilizing pooled accounts, limited liability companies, partnerships or group trusts. Investments may include Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOCs), and mutual funds composed of REITs and REOCs.
 5. Cash Equivalents and other short-term funds are permitted and may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements, which are fully collateralized by U.S. Treasury issues. Unless expressly prohibited by the Board, excess cash may be invested in the Short Term Investment Fund of the Custodian Bank(s) or negotiable certificates of deposit, or other short-term investment vehicles designated by the Board.
 6. Futures and Options strategies may be employed, upon specific authorization of the Board. Equity and Fixed Income Managers may utilize specific derivative investment to provide volatility protection or enhance the rate of return.
 7. Commingled funds and/or institutional mutual funds may be used as investment vehicles. The Board recognizes that it cannot give specific policy directives to a fund (whose policies are already established). Therefore, the Board understands that investments in commingled or mutual funds shall be managed in accordance with the objectives, policies, and restrictions set forth in the commingled fund's guidelines or mutual fund's prospectus. For mutual and other commingled funds, the prospectus or Trust documents of the fund(s) will govern the investment policies of the fund investments. Investment managers, however, shall be guided by the general principles and constraints outlined in this investment policy.
 8. Securities lending may be implemented through the System's custodian or other reputable agents provided that at the time the loan is executed, at least 102% of the full market value of the security loaned is secured by cash collateral. Further, at all times during the term of the loan, the collateral shall be equal to not less than 100% of the full market value of the security loaned (102% for international securities) The custodian or agent must receive the collateral prior to the release of the securities. The program shall be governed by the Securities Lending Agreement which shall set forth, among other things, procedures for broker selection; responsibilities of the agent; types of collateral; crediting of revenues; and indemnification measures. At all times, the program must be compliant with the requirements of Michigan Public Act 314 of 1965 as amended.

B. Target Asset Mix

The Board, after due diligence, has adopted an asset allocation as outlined below. Consistent with the System's return objectives and risk parameters, the mix of assets for the System should be maintained as follows (percentages are of the market value of the System):

| Asset Class | Target | Permissible Range |
|---------------------------|------------|-------------------|
| Equity | 70% | 65 – 70% |
| Large Cap | 25% | 20 – 30% |
| Mid Cap | 20% | 16 – 24% |
| Small Cap | 10% | 8 – 12% |
| Global/International | 15% | 10 – 20% |
| Fixed Income | 25% | 20 – 30% |
| Domestic Investment Grade | 20% | 16 – 24% |
| High Yield | 5% | 3 – 7% |
| | | |
| Private Equity | 5% | 3 – 7% |
| Cash | 0% | 0 – 5% |

*Adopted September 2005

1. Small temporary variations may occur. The maximum percentage designated for the "Cash and Cash Equivalents" category is intended to apply after the initial start-up of any one portfolio within the System. The Board recognizes that this initial start-up period to become fully invested could be as long as three months after the initiation of a portfolio.
2. Investment managers shall be as fully invested as is possible, realizing that there will be residual cash in portfolios from time to time subject to limits as described in the attachments.
3. To reduce business risk, no single investment firm shall comprise more than 45% of the total portfolio.

C. Rebalancing Procedures

1. The allocation to each asset class and to investment styles within asset classes is expected to remain stable over most market cycles. Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall System's asset allocation, the aggregate asset allocation will be monitored and the Board will rebalance periodically. It is expected that rebalancing will occur semi-annually. The Administrator will notify Managers well in advance of withdrawals to allow sufficient time to provide liquidity.
2. The Board must be advised of any pending rebalancing activity and must approve the action. To achieve the rebalancing of the System, the Retirement Administrator, in consultation with the System's investment consultant, may re-direct contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another.

VI. MANAGER SELECTION CRITERIA

- A. Managers retained by the Board shall be chosen based on, but not limited to, the following criteria:
 1. The investment style and discipline of the Manager and/or fund and how well the manager's investment style or approach complements other assets in the System,

2. Past performance, considered relative to other Managers having similar investment styles including both consistency of performance and the level of risk taken to achieve results,
3. Level of experience, financial resources, and staffing levels of the Manager
4. An assessment of the likelihood of future investment success, relative to other opportunities.

B. Investment Manager Structure

1. The System will utilize a multi-manager structure of complementary investment styles and asset classes to invest System's assets, as described in the attachments.

VII. INVESTMENT MANAGER GUIDELINES

A. General

1. Full discretion shall be granted to the Managers regarding the asset allocation, the selection of securities, and the timing of transactions, within the parameters of the objectives and guidelines described herein.
2. While the Board is sensitive to excessive turnover, there shall be no specific limitation in this regard, recognizing the importance of providing flexibility to the Manager(s) to adjust the asset mix in changing market conditions.
3. The flexible management of the portfolio is permitted, and while the Board is appropriately sensitive to book losses, there is no justification to hold a particular security, or to manage the collective assets, for the principal purpose of avoiding the recognition of a book loss.
4. Compliance with all guidelines must be monitored by the Managers on a regular basis (monthly or more frequently when unusual market conditions warrant) and based on then current market values. In the event that the portfolio moves out of compliance with these guidelines (as identified in the Manager's regular review of the portfolio), through market conditions or other changes outside the control of the Manager, the Manager must
 - a) bring the portfolio composition into compliance within 45 days from the first date that the portfolio moved out of compliance, or
 - b) make a written request to the Board for a compliance waiver.
5. Managers shall make all portfolio transactions on a "best execution" basis. Arrangements to direct commissions shall only be implemented by specific authorization of the Board.
6. The manager is to calculate investment fees based on the custodian's market value of assets and the other terms agreed upon within the investment management contract. In the event of an unreconciled difference in asset value at the end of a billing period, the custodial value will be used for the calculation of fees.

B. Prohibited Investments

The System's assets in separately managed accounts may not be used for the following purposes:

1. Transactions prohibited or limited by Michigan Public Act 314 of 1965, as amended
2. Short Sales

3. Purchases of letter stock, private placements (except for 144A securities with registration rights), or direct payments
4. Leveraged transactions other than real estate
5. Purchases of securities not readily marketable
6. Commodities transactions
7. Puts, calls, straddles, or other option strategies, except where permitted
8. Purchases of oil and gas properties or other natural resources related properties
9. Investment in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement
10. Investments by the Managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Board)
11. Purchases of mortgage securities whose payment represents the coupon payments on the outstanding principle balance of the underlying mortgage-backed securities and pays no principal (e.g. interest only securities)
12. Purchases of mortgage securities whose payment represents the principal balance of the underlying mortgage-backed security and pays no interest (e.g. principal only securities)
13. Purchases of mortgage securities whose payment of interest is determined by an index opposite to the changes in a market index (e.g. inverse floaters)
14. Requests by Managers to execute transactions that are not currently authorized in this policy must be made in writing to the Board for approval prior to executing such transactions
15. For mutual funds and other commingled funds, the prospectus or Trust documents of the fund(s) will govern the investment policies of the Fund's investments, as outlined in Section V (A) (7)

C. Derivative Policy

A derivative is a security or contractual agreement, which derives its value from some underlying security, commodity, currency, or index.

1. Types of Derivative Contracts
 - a) Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments
 - b) Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments.
2. Types of Derivative Securities
 - a) Collateralized Mortgage Obligations (CMOs)
 - b) Structured Notes
3. The use of derivative securities is permitted as described under Section V (A) (2)
4. Where appropriate, Managers may use derivative contracts for the following reasons:
 - a) Hedging: To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross hedging of currency exposures.
 - b) Creation of Market Exposures: Managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the Manager allow for such exposures to be created with the underlying assets themselves.

5. By way of amplification, it is noted that the following two uses of derivatives contracts and securities are prohibited:
 - a) Leverage: Derivatives shall not be used to magnify overall portfolio exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used.
 - b) Unrelated Speculation: Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

D. Domestic Equity Managers

1. Equity Managers will be expected to manage their holdings in order to maximize net long-term returns. It is contemplated that equity specialist Managers shall normally be fully invested, maintaining a 90-100% equity commitment level.
2. No individual portfolio shall hold more than 5% of its assets or 1.25 times the index's weight, whichever is greater, in the securities of any single entity. For those securities where more than 5% is allowed, these securities shall be limited to an absolute maximum of 8% of the portfolio. Issues of the U.S. Government and its Agencies and mutual funds are not subject to any of these limits.
3. No purchase shall be made, which would cause a holding to exceed 5% of the market value of the issue outstanding.
4. There shall be no short selling, securities lending, use of financial futures or other specialized investment activity.
5. Equity Managers may invest up to 10% of their portfolio holdings in reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall reasonably carry the equivalent of S&P A1 or Moody P-1.

E. Domestic Fixed Income Managers

1. Fixed-income securities are to be selected and managed to ensure appropriate quality and maturity exposure, consistent with these guidelines and current market and economic conditions. "Active" bond management (i.e., over- or underweight sectors, securities, maturities, duration relative to benchmark) is encouraged, as deemed appropriate by the Managers. Fixed income specialist may vary the bond commitment from 90-100% of assets under their discretion.
2. The overall average quality rating of each high-grade portfolio shall be at least AA or equivalent rating. If an issue is split-rated, it will be governed by the lower quality rating.
3. The diversification of securities by maturity, quality, sector and coupon is the responsibility of the Manager.
4. No security, excepting issues of the US Government or its agencies or mutual funds, shall comprise more than 5% of the Manager's total portfolio of assets, measured at market. Further, no individual portfolio shall purchase more than 5% of its assets in the securities of any single issuer, excepting issues of the US Government or its agencies. (For mortgage-backed securities, an issuer is defined as a separate trust.)
5. CMBS securities may be held in the portfolio and should have a Moody's and Standard and Poor's quality rating of no less than BBB from each of these rating services. (For an issue, which is split-rated, the lowest quality designation will

govern). The weighting to CMBS securities of an actively manage portfolio shall not exceed 10%.

6. The Manager may use interest rate futures for the purpose of managing (hedging) the duration of the fixed income portfolio. The use of futures is expressly allowed by the Investment Policy Statement (IPS) (Section VII C.4.a.). There shall be no other use of options, financial futures, or other specialized investment activity without the prior written approval of the Board.

F. High Yield Managers

1. High yield securities are to be selected and managed to ensure appropriate quality, industry, and maturity exposure, consistent with these guidelines and current market and economic conditions.
2. The overall average quality of the high yield portfolio shall be at least CCC or better.
3. The diversification of securities by maturity, quality, sector and coupon is the responsibility of the Manager.
4. No security, excepting issues of the US Government or its agencies or mutual funds, shall comprise more than 2.5% of the Manager's total portfolio of assets, measured at market. Further, no individual portfolio shall purchase more than 5% of any single issuer, excepting issues of the US Government or its agencies. (For mortgage-backed securities, an issuer is defined as a separate trust.)

G. Global Equity Managers

1. Global Equity Managers will be expected to manage their holdings in order to maximize net long-term returns. It is contemplated that equity specialist Managers shall normally be fully invested, maintaining a 90-100% equity commitment level.
2. Decisions as to the number of issues held and their geographic distribution shall be left to the Manager provided that equity holdings in any one company, excluding mutual funds, do not exceed 5% of the market value of the Manager's portion of the System's portfolio without the written consent of the Board.
3. Global Equity Managers may invest up to 10% of their portfolio holdings in reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Short-term reserves may be held in U.S. dollar denominated securities or investment vehicles available through the System's custodian.
4. Managers may employ an active currency management program and deal in futures and options within the disciplines of that currency management program subject to the derivatives guidelines set forth in Section VII (C) Derivatives Policy.

H. International Equity Managers

1. International equity securities are expected to be issued by non-U.S. corporations, although the Manager has latitude to hold U.S. securities provided that such investments are consistent with attainment of the portfolio's investment objective and are limited to 15% of the portfolio.
2. These portfolios should be considered as "equity funds" and shall normally be fully invested, maintaining a 90-100% equity exposure.
3. Short-term reserves may be held in U.S. dollar denominated securities or investment vehicles available through the System's custodian.

4. Decisions as to the number of issues held and their geographic distribution shall be left to the Manager provided that equity holdings in any one company, excluding mutual funds, do not exceed 10% of the market value of the Manager's portion of the System's portfolio without the written consent of the Board.
5. Managers may employ an active currency management program and deal in futures and options within the disciplines of that currency management program subject to the derivatives guidelines set forth in Section VII (C) Derivatives Policy.

I. Private Equity Managers

In addition to managed assets, the Fund may invest in closed-end-limited partnerships so as to diversify by investment type and strategy. The types of partnerships may include: (1) private equity funds: funds which provide equity capital to professional investment teams with the ability to take control of companies, add value to the companies, and after several years realize that value, (2) mezzanine finance funds: funds which provide subordinated debt capital with high coupons and equity warrants or options, and realize both the interest from the coupons and a portion of the growth of the equity, (3) pooled funds of the foregoing. The funding of individual investments in the Alternative Investments Portfolio will occur over an extended period and may take up to five years before the total commitment to a fund is fully drawn, and during this time individual investments will return capital to the investors prior to the full funding of the commitment. As a result it is expected that the ratio of funding to commitments will not exceed 60% to 70% of the total commitment. In recognition of this unique characteristic the target allocation for commitments will be 150% of the allocation target adopted by the Board.

Private Equity Investment Classes: Target Asset Allocation within Private Equity

| | Minimum | Target | Maximum |
|-------------------------|---------|--------|---------|
| Buyout Capital | 40.0% | 50.0% | 60.0% |
| Venture Capital | 0.0% | 20.0% | 30.0% |
| Expansion Capital | 5.0% | 7.5% | 10.0% |
| Mezzanine Debt Capital | 0.0% | 5.0% | 10.0% |
| Distressed Debt Capital | 0.0% | 10.0% | 10.0% |
| Non-U.S. Buyout Capital | 5.0% | 7.5% | 10.0% |

Manager/Fund Allocation Constraints

Committed Capital within Private Equity

Fund of Funds Allocation

Maximum of 100.0%

VIII. PERFORMANCE EVALUATION

A. General Guidelines

1. The Board will monitor the System's performance on a quarterly basis and will evaluate the System's success in achieving the investment objectives outlined in this document over an appropriate time horizon. The Board realizes that most

investments go through cycles, therefore, interim fluctuations should be viewed within the long-term perspective.

2. The System's (and investment manager's) performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to market indices and peer group universes pre-determined by the Board, for the most recent quarter and for annual and cumulative prior time periods. Investment managers will also be compared to a universe of peers that manage the same asset class and style. Managers are expected to perform in the top half of their peers over a market cycle. In addition, the Board will compare the annual returns for the total fund to the long-term returns projected by the aggregate asset allocation model.
3. The System's asset allocation in separately managed accounts and the allocation to each commingled fund should also be reported on a quarterly basis. For the purposes of calculating the asset allocation of the System as a whole, the asset allocation of each portfolio shall be assumed to be fully invested in the policy index to which it is compared.
4. Risk as measured by volatility, or standard deviation, should be evaluated after twelve quarters of performance history and periodically thereafter. Performance dispersion of each individual manager relative to other managed accounts of a similar style will be assessed from time-to-time. Such assessments will take into account the nature of the investment manager's style, portfolio constraints, and the market environment.

B. Manager Performance Standards

| Asset Category | Market Index | Peer Group |
|---|--|---|
| <u>Cash Equivalents</u> Cash | 91-Day U.S. Treasury Bills | Cash |
| <u>Fixed Income</u> Intermediate Core High Yield | Barclays Intm. Govt/Credit Barclays U.S. Aggregate ML High Yield Master II | Intm. Fixed Income Core Fixed Income High Yield |
| <u>Large Cap</u> Core Growth Value | Russell 1000 Russell 1000 Growth Russell 1000 Value | Large Cap Core Large Cap Growth Large Cap Value |
| <u>Mid Cap</u> Core Growth Value | Russell Mid Cap Russell Mid Cap Growth Russell Mid Cap Value | Mid Cap Core Mid Cap Growth Mid Cap Value |
| <u>Small Cap</u> Core Growth Value | Russell 2000 Russell 2000 Growth Russell 2000 Value | Small Cap Core Small Cap Growth Small Cap Value |
| <u>Global/International Equity</u> Core International Core Global | MSCI EAFE (Net) MSCI All Country World (Net) | International Equity Global Equity |
| <u>Private Equity</u> | Based on Strategy | Based on Strategy |

C. Manager Probation and Termination

1. The Board recognizes the importance of a long-term focus when evaluating the performance of Managers. The Board understands the potential for short-term periods when the performance of individual managers may deviate from the performance of representative market indexes. The Board, has determined however, that the following events or circumstances shall place the manager on probationary status:
 - a) Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account,
 - b) Any material client servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section IX of this investment policy,
 - c) Risk-adjusted performance of the Manager's portfolio is less than the Manager's prescribed market index over a rolling three year period,
 - d) Performance of the Manager ranks in the bottom-quartile of representative peer group universes for two consecutive quarters. The Board shall determine peer group universes with input from the consultant and the manager.
2. When Manager has been placed on Probationary Status, the Board shall notify them in writing and they will appear at a meeting as designated by the Board. The Board shall review the circumstances of probationary status to determine whether the Manager may be removed from probation, continued on probation for another two quarters, or terminated. The Board reserves the right to take action at any time, with or without cause.

IX. MANAGER REPORTING REQUIREMENTS

A. As Necessary (based on occurrence)

Managers are expected to promptly inform the Board and consultant regarding all significant matters pertaining to the investment of the System's assets. These include, but are not limited to the following:

1. Changes in investment strategy, portfolio structure and market value of assets managed.
2. Any regulatory actions or legal proceedings, including investigations, litigations and disciplinary actions brought about by the Securities and Exchange Commission (SEC), any securities regulatory body, any securities exchange or any relevant governmental body or agency.
3. Changes in ownership affiliations, organizational structure, financial condition, professional staffing and clients.
4. Material changes in the liquidity of the securities held in the portfolio.

B. Monthly

Each manager is required to provide the Board with an Accounting Statement. This report should include the market value of the assets held on behalf of the System and all transactions that occurred during the period.

C. Quarterly

Each investment manager may be required to provide the Board with quarterly investment reports that include the following information:

1. Summary of Investment Guidelines
2. Investment strategy used over the past year and underlying rationale.
 - a) Evaluation of strategy's success/disappointment.
3. Comment on the current liquidity of the portfolio and the market(s) in which the portfolio is invested. For managers holding mortgage-backed securities, results of current 'stress' tests on the portfolio, indicating how the manager believes it would respond to interest rate movements up or down. For managers holding securities with forward delivery dates, an accounting of the cash needed to retire such securities.
4. Performance Review

The following quarterly reporting requirement shall apply to all managers

 - a) Present total fund and asset class returns for last calendar quarter, year-to-date, last year, last three years, last five years and since inception versus designated benchmarks. All performance data shall be in compliance with GIPS (Global Investment Performance Standards).
 - b) Discuss performance relative to benchmarks.
 - c) Provide portfolio characteristics relative to benchmarks.
5. Portfolio Holdings
 - a) Present book value and current market value
 - b) List individual securities by sector, asset class, or country, as appropriate.
6. Derivatives Review

Each Manager that invests System's assets in derivatives contracts or securities shall also prepare a quarterly report on the following information:

 - a) All derivatives positions as of quarter-end.
 - b) An assessment of how the derivatives positions affect the risk exposure of the total portfolio.
 - c) An explanation of any significant pricing discrepancies between the Manager and the custodian bank.

D. Annually

1. Compliance

A statement certifying compliance with the investment policy guidelines throughout the year; or, if the portfolio has been out of compliance, an explanation.

2. Proxy Voting

The Board shall delegate responsibility for the exercise of ownership rights through proxy voting to the Managers, who shall exercise this responsibility strictly for the economic benefit of the Fund and its participants and in accordance with PA 314. Managers may be required to report to the Board standing policies with respect to proxy voting, including any changes that have occurred in those policies. Additionally, Managers may be required to provide a written annual report of the proxy votes for all shares of stock in companies held on the Fund's behalf. These reports shall specifically note any instances where proxies were not voted in accordance with standing policy.

3. Commissions & Trading Costs

- a) The annual commission report is required to be delivered to the Board, staff, and consultant within forty-five (45) days of the end of each calendar year. The report should cover all trades executed during the prior calendar year.
- b) Each annual commission report should include the following:

XII. APPROVAL

It is understood that this investment policy is to be reviewed periodically by the Board to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, changes in the System or changes involving the investment managers.

Chairman, Board of Trustees

Date