WATER AND POWER
EMPLOYEES' RETIREMENT PLAN

Statement of Investment Objectives, Goals, and Guidelines

REVISED: 2016-09-14

Table of Contents

Page

I. General Investment Goals **1**

II. Policies and Procedures **2**
- 2.1 Asset Allocation Policy 2
- 2.2 Asset Class and Portfolio Component Definitions 3
- 2.3 Responsibilities and Delegations 5

III. Investment Management Policy **8**
- 3.1 Manager Selection 8
- 3.2 Manager Authority 8
- 3.3 Proxy Voting 8
- 3.4 Derivatives 9
- 3.5 Rebalancing 9

IV. Selection, Termination, and Monitoring of Investment Managers **11**
- 4.1 Selection Process of Investment Managers 11
- 4.2 Process for Investment Manager Termination 11
- 4.3 Monitoring Investment Managers 11

V. Policy for the Use of Placement Agents and Third-Party Marketers **16**

VI. Securities Lending Cash Collateral Investment Guidelines **20**

VII. Domestic Equity Guidelines **23**
- 7.1 Passive Domestic Equity 25
- 7.2 Active Large Cap Value Domestic Equity 26
- 7.3 Active Large Cap Growth Domestic Equity 27
- 7.4 Active Small Cap Value Domestic Equity 28
- 7.5 Active Small Cap Growth Domestic Equity 29

VIII. International Equity Guidelines **30**
- 8.1 Passive International Equity 32
- 8.2 Active Growth International Equity 33
- 8.3 Active Value International Equity 35
- 8.4 Active Emerging Markets Equity 37

IX. Fixed Income Guidelines **39**
- 9.1 Active Principal Protection 41
- 9.2 Active Extended Global Credit 43
- 9.3 Active U.S. Bank Loans 46

X. Real Return Guidelines **47**
- 10.1 Global Inflation-Linked Securities 50
- 10.2 Commodities 53
- 10.3 Timber 56
- 10.4 Guidelines for Investment Evaluation 59

XI. Hedge Fund Guidelines **60**
- 11.1 Custom Fund of Hedge Fund 66
- 11.2 Guidelines for Investment Evaluation 69

XII. Real Estate Investment Policy **70**
- 12.1 Designated Responsibilities and Tasks 82
- 12.2 Guidelines for Initial Manager Evaluation 84
- 12.3 Guidelines for Ongoing manager Evaluation 85
- 12.4 Global Real Estate Investment Trust Guidelines 86

XIII. Private Equity Investment Policy **88**
- 13.1 Designated Responsibilities and Tasks 97
- 13.2 Guidelines for Fund of Funds Evaluation 99
- 13.3 Direct Partnership Guidelines and Partnership Investment Criteria 100

Appendix
- Glossary of Terms 102

I. General Investment Goals

The following broad investment goals are adopted by the Board, consistent with generally accepted standards, Plan Document, City Charter, and California State Constitution:

1. The overall goal of the Water and Power Employees' Retirement Plan's ("The Plan") investment assets is to provide Plan participants with post-retirement benefits as set forth in the Plan documents, including the Retiree Health Benefits Fund. This will be accomplished through a carefully planned and executed investment program.

2. A secondary objective is to achieve an investment return which will allow the percentage of Department revenues necessary to fund the Plan to be maintained consistent, or reduced, and which will provide for a full funding of the Plan's liabilities.

3. The Plan assets will be managed on a total return basis. While the Plan recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's Investment Policy has been designed to produce the most favorable long-term total portfolio return consistent with reasonable levels of risk. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impact on the Plan's total assets with consideration of the Board's responsibility as established by the City Charter and by Article 16, Section 17 of the California State Constitution.

4. The Plan's investment program shall at all times comply with existing and future applicable City, State, and Federal regulations.

5. All transactions undertaken will be for the sole benefit of the Plan's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the Plan.

6. The Plan has a long-term investment horizon, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan, implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.

7. Investment actions are expected to comply with "prudent person" standards as described:

   "...with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims".[1]

[1] ERISA 404(a) (1) (B)

II. Policies and Procedures

The policies and procedures of the Board's investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies may evolve as fund conditions change and as investment conditions warrant. The Board will review the Investment Policy Statement for any amendments as needed, but no less than triennially.

2.1 Asset Allocation Policy

The Board adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities, benefit payments and required contributions;
- Historical and expected long-term capital market risk/return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The current and projected funding status of the Plan.

This policy provides for diversification of assets in an effort to maximize the investment return of the Plan consistent with market conditions. Asset allocation modeling identifies asset classes the Plan will utilize and the percentage that each class represents of the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated the Plan's asset allocation policy may be subject to periodic revisions.

The Board will periodically monitor and assess the actual asset allocation versus policy and will rebalance as appropriate.

The Board implements its asset allocation policy through the use of full discretion investment managers who invest the assets of the portfolios assigned to them, subject to specific investment guidelines provided by the Board.

In accordance with Board Resolution 16-23, adopted by the Board September 23, 2015, the Long-Term Asset Allocation Target for the investment of the Plan's assets is shown below. Also on October 21, 2015, under Board Resolution 16-31, the Board adopted an Interim Asset Allocation Target to allow for a smooth transition to the Long-Term Asset Allocation Target. The Interim Asset Allocation Target will be evaluated annually at fiscal year-end as the Plan works towards the approved Long-Term Asset Allocation Target. The Long-Term and Interim Asset Allocation Targets are as follows:

	Long-Term	Interim
Domestic Equity	29.00%	34.25%
International Equity	19.00%	19.00%
Fixed Income	25.00%	28.75%
Real Return	5.00%	5.00%
Hedge Funds	5.00%	2.00%
Real Estate	8.00%	5.00%
Private Equity	8.00%	5.00%
Cash Equivalents	1.00%	1.00%

2.2 Asset Class and Portfolio Component Definitions

The Board will utilize the following portfolio components to fulfill the Long-Term Asset Allocation Target and total fund performance goals established in this document.

1. **Domestic Equities –** The Board expects that over the long run, total returns on domestic equities will be higher than the returns of fixed income securities, understanding such returns may be subject to substantial volatility over shorter periods of time. For purposes of further investment diversification the Board adopted five components of the Plan's domestic equity holdings as follows (see Board Resolutions 03-23 of October 9, 2002 and 03-19 of September 18, 2002):

   - **Index Funds / Core Stocks –** This portfolio will provide broadly diversified, core exposure through index funds to the US equity market, primarily in large capitalization companies. Index funds provide primary liquidity for asset allocation rebalancing. The target index fund to be tracked by this segment shall be the Russell 1000 Index.

   - **Large Value Stocks** – Large Cap Value stocks, covering the upper range of market capitalization, are expected to outperform the broad market during periods when the market prefers companies with a large margin of safety, such as downturns, or when the market rewards undervalued companies during rebounds. Value stocks typically exhibit higher dividend yield, lower P/E ratios, or lower Price/Book ratios.

   - **Large Growth Stocks –** Large Cap Growth stocks, covering the upper range of market capitalization whose valuations are more directly tied to future earnings prospects. Often, growth stocks sell at higher prices relative to expected or historical earnings growth in anticipation of sustained or accelerating growth. Growth stocks typically exhibit above average levels of positive earnings momentum, long-term earnings growth or return-on-equity. Strategies targeting growth stocks can range from those that focus on more volatile speculative growth stocks or more defensive sustainable growth stocks.

   - **Small Value Stocks –** The principal characteristic of the small value stock component is its emphasis in stocks with market capitalization generally ranging from $200 million - $2.0 billion which are undervalued due to a short-term event or issue which has caused the market to depreciate its value. Managers targeting small cap value stocks seek to invest where issues are less significant or less persistent than the market estimates. Value stocks typically exhibit higher dividend yield, lower P/E ratios, or lower Price/Book ratios.

   - **Small Growth Stocks –** The principal characteristic of the small growth stock component is its emphasis in stocks with market capitalization from $200 million - $2.0 billion which are generally characterized by faster growth and higher long-term returns during rising markets. Growth stocks typically exhibit above average levels of positive earnings momentum, long-term earnings growth or return-on-equity. Strategies targeting growth stocks can range from those that focus on more volatile speculative growth stocks or more defensive sustainable growth stocks.

2. **Non-U.S. Equities –** The Board expects that over the long run, total returns of Non-U.S. equities will be similar to the returns of domestic equities and will provide diversification to the domestic equity asset class, as well as to the aggregate investment portfolio. The following two components of the Plan's International equity holdings were adopted by the Board (see Resolution 03-22 of October 9, 2002):

   - **Core International Stocks** – This portfolio component provides exposure to broadly diversified equity markets outside the U.S. and consequently plays a significant role in diversifying the Board's portfolio. This segment will concentrate on larger companies in established developed equity markets around the world.

- **Emerging Markets –** This portfolio component is made up of equity positions in companies located in emerging, rapidly growing countries around the world. Because these are countries which are typically in the early development stages of economic growth, the returns in these countries are expected to be higher and more volatile on a year-to-year basis.

3. **Fixed Income –** The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the Plan's investment assets. The following three components of the Plan's fixed income holdings were adopted by the Board (see Resolution 13-91 of June 26, 2013):

   - **Principal Protection –** This segment will provide exposure to U.S. fixed income securities that contain relatively low levels of risk and exhibit lower volatility than other fixed income sectors or strategic classes. The portfolio will be entirely investment grade, and predominately consist of U.S. Treasuries, U.S. Agencies, and Securitized issues. Duration will be shorter than the broad fixed income market. Marginal allocations to outside benchmark securities (e.g. Foreign Sovereigns, Supranationals, etc.) will also be permitted, but subject to the investment grade rating requirement.

   - **Extended Global Credit –** This segment will provide exposure to fixed income securities that contain various levels of credit risk, and thus provide higher income and volatility than other fixed income sectors or strategic classes. The portfolio will primarily include fixed-rate instruments, but floating-rate securities will also be allowed. The portfolio will include both investment grade and non-investment grade rated securities, with an emphasis on Corporate Debt. Allocations to other entities, such as Non-U.S. Agencies, Local Authorities, Foreign Sovereigns, and Supranationals will also be included. Tactical allocations to sectors with less-or-no credit risk, such as U.S. Treasuries, will be allowed at the manager's discretion. Exposure to this segment is meant to provide additional income and return to the fixed income portfolio, consistent with its higher risk profile compared to the Principal Protection segment.

   - **U.S. Bank Loans –** This segment will provide exposure to relatively illiquid floating-rate securities that provide a high level of income. The portfolio will emphasize non-investment grade issuers. Exposure to this segment is meant to provide additional income and return to the fixed income portfolio, as well as partially insulate the fixed income portfolio from interest rate risk. This segment will exhibit a higher risk profile compared to the Principal Protection segment.

4. **Private Equity –** This portfolio is expected to provide portfolio diversification and additional return over and above the Plan's public markets portfolio, consistent with its higher risk profile compared to other segments of the Plan's portfolio. Examples of Private Equity Investment holdings will include venture capital, leveraged buyouts, distressed debt, and special equity funds.

5. **Real Estate –** This portfolio is expected to provide portfolio diversification due to real estate's low correlation with the returns of publicly traded equities and fixed income.

6. **Real Return –** This portfolio is expected to provide a consistent return in excess of inflation. Stable real returns should provide diversification versus other strategic classes. The real

return class can contain numerous asset segments that, and when combined, is expected to produce the desired investment return and volatility outcome.

- **Global Inflation Linked Securities ("GILS")** – This segment is designed to provide inflationary adjusted income through exposure to the GILS market including U.S and sovereign government issues. This segment is expected to match or outperform inflation over a market cycle.

- **Commodities** – This segment will provide exposure to areas available in the U.S. commodities market including Energy, Livestock, Agriculture, Industrial Metals and Precious Metals. It is expected that Commodities will provide positive exposure to rapid changes in inflation and inflation expectations.

- **Timber** – This segment is meant to provide low correlation to traditional public market segments. Exposure to this segment is also meant to provide additional income and return to the Real Return portfolio, consistent with its longer investment time horizon, compared to the other Real Return class segments.

7. **Hedge Funds** – This portfolio is expected to provide portfolio diversification with low correlation of returns to publicly traded equities and fixed income. It is designed to enhance the risk-adjusted performance of the Plan and add incremental diversification versus the other class segments.

2.3 Responsibilities and Delegations

Responsibilities of the Board

The Board shall:

1. Act in a fiduciary capacity in the exercise of its duties.
2. Approve and amend the Investment Policy and Annual Strategic Policies.
3. Approve investment opportunities considered for the Plan. When evaluating investment opportunities:

    a. Review due diligence reports prepared by the Consultant(s)/Investment Staff.
    b. Interview management teams of proposed investments, as necessary.
    c. Approve or reject proposed investment opportunities.

4. Monitor the performance of the Consultant(s).
5. Receive and review performance reports from the Consultant(s)/Investment Staff.

Responsibilities of the Investment Staff

The Investment Staff shall:

Recommendations to the Board
- Assist Consultant(s) in developing recommendations regarding Investment Policies, Strategies and Guidelines.

Investment Opportunity Sourcing
- Review investment referrals received from Board members, etc.
- As desired, perform initial gatekeeper functions by meeting with groups, and reviewing the investment documentation.

- Perform preliminary due diligence prior to referring to the Consultant(s) for further due diligence.

Due Diligence

- Forward contact information and materials to Consultant(s) for desired opportunities.
- Coordinate full due diligence review.
    - Initiate outside legal review (recommended).
    - Communicate status of legal review to Consultant(s).
- Review Consultant(s) due diligence report, analysis, and recommendations for qualitative and quantitative reasonableness.
- Assist Consultant(s) with on-going monitoring and due diligence.

Investment Administration

- Execute documents for investments approved by the Board.
    - Review and execute contracts, modifications, and other documentation.
    - Manage day-to-day Plan operations including setting up communications, setting up custodial accounts, data requirements and standard wire instructions.
    - Coordinate capital calls and distributions.
    - Review and process a variety of reports from Managers.
- Keep Consultant(s) apprised of operations, as needed.

Performance Monitoring

- Receive and review quarterly reports from Managers.
- Receive and review full performance report (quarterly) and Strategic Plan (annually) from Consultant(s).

Consultant Evaluation

- Review and assess:
    - Program performance.
    - Quality of analytical and technical work.
    - Responsiveness to requests from the Board and Investment Staff.
    - Availability to attend Board meetings and meetings with Investment Staff given reasonable advance notice.
    - Ability to identify and mitigate risks.
    - Ability to proactively informing Investment Staff of new investment opportunities or risks in the market place.

Responsibilities of the Consultant(s)

The Consultant(s) shall:

1. Act in a fiduciary capacity when exercising duties.
2. Report directly to the Board/Investment Staff on matters of policy.
3. Review the policy annually and notify the Board/Investment Staff if revisions are needed.
4. Bring non-conforming issues to the attention of the Board/Investment Staff.
5. Complete due diligence on potential investment opportunities.
6. Review proposed investments and make recommendations.
7. Complete manager and strategy due diligence on an as-needed basis.
8. Monitor the performance of the Plan and compliance with the Policy.
    a. Consultant receives monthly and quarterly performance reports from Managers.
    b. Consultant verifies performance of the Managers and reconciles data of the Manager and Custodian.

9. Monitor and report on risk.
10. Prepare quarterly performance report and present to the Board/Investment Staff.
11. Provide the Board/Investment Staff with research items relevant to the Plan.
12. Provide ongoing education to the Board/Investment Staff.

Additionally, the Consultant(s) shall follow the procedures outlined below when conducting a Public Markets Manager search.

Investment Due Diligence

- Long List of Candidates - Analyze the following aspects:
  - Investment Strategy
  - Organizational Structure
  - Background and Experience
  - Track record
  - Terms
  - Alignment of Interest

  Upon completion, review findings with the Plan's Board and recommend finalist candidates.

- Finalist Candidates
  - Conduct onsite visits as appropriate.
  - Upon completion, prepare and issue to the Plan's Board a finalist book to accompany finalist presentations.
  - Arrange meeting to review materials and performance interviews.

III. Investment Management Policy

The Board will retain external investment managers to manage portfolios using a specific style and methodology. Managers are expected to establish an account for the Retirement Fund and an account for the Retirement Health Benefits Fund (individually, the "Account" and collectively, the "Accounts"). The Accounts should be equivalent to each other in structure, holdings, and performance. In instances where equivalent accounts cannot be created due to different asset sizes of the accounts, available account structures, or restrictions on the type of funds the manager can receive, the Board shall determine an appropriate alternative product and account structure as similar to the original portfolio as possible. Managers will have authority for implementing investment strategy, security selection, and trade execution, subject to the specific Manager Guidelines, contract, and legal restrictions, or other Board direction. Performance objectives will also be developed for each manager. The performance of the portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and, if available, relative to a peer group of managers following similar investment styles.

Investment actions are expected to comply with "prudent person" standards. Each investment manager will be expected to act as a fiduciary and to know the Investment Guidelines of the Board and comply with those at all times.

The Board will also review each investment manager's adherence to its investment policy, and any material changes in the manager's organization (e.g. personnel changes, new business developments, etc.). The investment managers retained by the Board will be responsible for informing the Board of such material changes.

Investment managers under contract with the Board shall have discretion to prudently establish and execute transactions with securities broker/dealer(s) as a manager may select. The investment managers shall obtain best execution with respect to every portfolio transaction. The following transactions will be prohibited: short sales; selling on margin; "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA); and, transactions that involve a broker acting as a "principal," where such broker is also the investment manager who is making the transaction. Authorized transactions shall be those specifically outlined in writing by the Board.

The investments of the Board's assets will be subject to the following general policies:

3.1 Manager Selection

The selection of investment managers must be accomplished in accordance with Board Policy. Each investment manager is expected to operate under formal contract delineating responsibilities and appropriate performance expectations.

3.2 Manager Authority

The Board's investment managers shall direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document, applicable Local, State and Federal statutes and regulations. Investment managers shall also be subject to specific investment policies and guidelines adopted by the Board, and executed contracts.

3.3 Proxy Voting

Proxy voting rights will be managed with the same care, skill, diligence and prudence as is exercised in managing other assets. Proxy voting rights will be exercised in the sole interest of the Plan's members and beneficiaries in accordance with all applicable statutes consistent with the Board proxy policies. (Please refer to the guidelines developed by the proxy advisor, contained in a separate document, for specific policy language).

3.4 Derivatives

The Board's investment managers may be permitted, under the terms of specific individual investment guidelines (as approved by the Board, in writing, and consistent with the manager's mandate), to use derivative instruments as set forth in such manager's investment guidelines, to control portfolio risk. Derivatives are contracts or securities whose returns are derived from the returns of other securities or indices. Allowable derivative instruments include, but are not limited to, futures and forwards. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes; and adjusting portfolio duration for fixed income. In no circumstances can managers borrow funds to purchase derivatives. If authorized in writing by the Board, Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in any authorized derivative transactions.

3.5 Rebalancing

The allocation to each asset class and to investment styles within asset classes is expected to remain stable over most market cycles.

As markets move over time, the actual asset mix of the Plan's portfolios may diverge from the target allocations established by the Board through the asset allocation process. If Plan assets are allowed to deviate too far from the target allocations, there is a risk that the portfolio will fail to meet the objectives set by the Board. On the other hand, continual rebalancing may result in significant transaction costs.

The Board is responsible for final approval of all rebalancing recommendations. The Board will not attempt to time rises or falls in equity or bond markets by moving away from long-term targets because (1) market timing often results in lower returns than longer term strategies, and (2) there is no evidence that one can adequately predict market returns and subsequently time the market.

Plan Investment Staff are responsible for monitoring the portfolios and, with input from the investment consultant, making rebalancing recommendations to the Board. Plan Investment Staff are responsible for implementing rebalancing decisions made by the Board.

A. With respect to each asset class and to the sub-asset classes for which the Board has set a target allocation, the Board, in consultation with its investment consultant, will establish rebalancing range limitations.

B. Investment Staff will monitor the portfolio's asset allocation relative to the target allocations and report to the Board. If the actual allocations fall within the defined ranges rebalancing may occur, but no rebalancing will be required. If actual allocations to an asset class, or to a sub-asset class, fall outside the predetermined range, Investment Staff, in consultation with the investment consultant will develop recommendations for rebalancing, including the time-frame for accomplishing the proposed rebalancing. Upon approval by the Board, Investment Staff will implement the proposed rebalancing. Rebalancing will generally not occur more frequently than every three months, and need not occur every three months if the components of the portfolio are within their target ranges. Rebalancing will not wait for scheduled meetings, although rebalancing can occur at such meetings. In the event that market conditions generate a need to rebalance between meetings, the

Investment Staff, in consultation with the investment consultant, will review the situation and recommend a course of action to the President of the Board. The President shall determine whether a special meeting of the Board shall be called to approve a rebalancing action.

C. In making its recommendations for any required rebalancing, Investment Staff, in consultation with the investment consultant should generally prioritize implementation procedures as follows:

1. Drawing cash out of the portfolio (for benefit payments and expenses) from asset classes that are above their range limitations (using interest payments, rental revenues and dividends); and

2. Selling overweighted assets and/or buying underweighted assets.

Long-Term Asset Allocation Targets and Ranges –

Asset Class	Target (% of Total Portfolio)	Maximum (% of Total Portfolio)	Minimum (% of Total Portfolio)	Range +/- %
Equity	48.0%	55.2%	40.8%	+/-15%
Domestic Equity	29.0%	33.3%	24.6%	+/-15%
Large Cap	26.7%	30.7%	22.7%	+/-15%
Large Cap Value	9.0%	10.3%	7.6%	+/-15%
Large Cap Passive	8.8%	10.1%	7.5%	+/-15%
Large Cap Growth	9.0%	10.3%	7.6%	+/-15%
Small Cap	2.3%	2.7%	1.8%	+/-20%
Small Cap Value	1.1%	1.4%	0.9%	+/-20%
Small Cap Growth	1.1%	1.4%	0.9%	+/-20%
International Equity	19.0%	22.8%	15.2%	+/-20%
Developed Markets	14.5%	17.4%	11.6%	+/-20%
Emerging Markets	4.5%	5.4%	3.6%	+/-20%
Fixed Income	25.0%	28.8%	21.3%	+/-15%
Principal Protection	12.5%	14.4%	10.6%	+/-15%
Extended Global Credit	11.3%	12.9%	9.6%	+/-15%
Bank Loans	1.3%	1.4%	1.1%	+/-15%
Real Return	5.0%	7.5%	0%	+50/-100%
Global Inflation Linked Securities	3.2%	4.8%	0%	+50/-100%
Commodities	1.2%	2.4%	0%	+50/-100%
Timber	0.6%	1.2%	0%	+50/-100%
Hedge Funds	5.0%	7.5%	0%	+50/-100%
Real Estate	8.0%	12%	0%	+50/-100%
Private Equity	8.0%	12%	0%	+50/-100%
Cash Equivalents	1.0%	1.5%	0.5%	+-/50%

Note all targets and ranges rounded to the nearest decimal point.

*Actual allocation may fall outside the Target Ranges during periods of implementation.

IV. Selection, Termination, and Monitoring of Investment Managers

4.1 Selection Process of Investment Managers

The process of investment manager selection shall originate with the Board. Unless the Board decides otherwise, all searches shall be conducted by Investment Staff and the Board's investment consultant.

The first step shall involve the establishment of appropriate minimum criteria such as minimum asset base, performance history, special firm qualifications, years of experience, etc. that reflect an appropriate level of institutional investment service. Based upon these criteria, Investment Staff and/or consultant shall design the appropriate request for proposal ("RFP") or request for information ("RFI") to be delivered to the institutional marketplace.

Investment Staff and/or consultant shall devise a scoring system to evaluate the qualifications of the RFP/RFI respondents. Their objective shall be to narrow the field to several firms for in-depth review and finalist selection. The finalists shall then be scheduled for Board presentations. Following the Board's selection, Investment Staff shall negotiate final terms and conditions with the chosen manager(s) and complete the review and negotiation of all appropriate contracts and agreements.

4.2 Process for Investment Manager Termination

The Board reserves the right to terminate an investment manager for any reason, including, but not limited to, any of the following:

- Failure to comply with the guidelines agreed upon for management of the Board's portfolio, including holding unauthorized issues.
- Failure to achieve performance objectives specified in the manager's guidelines.
- Significant deviation from the manager's stated investment style, philosophy, and/or process.
- Loss of key personnel.
- Evidence of illegal or unethical behavior by the investment management firm.
- Unwillingness to cooperate with reasonable requests by the Board, such as information, meetings or other material related to its portfolios.

4.3 Monitoring Investment Managers

1. Background - Why Investment Manager Monitoring Is Important

   The monitoring of the Plan's investment managers is critical because it is part of the fiduciary responsibility of the Board on behalf of Plan participants and beneficiaries. As the fiduciary for the Plan, the Board is responsible for determining when and whether certain factors may be detrimentally impacting an investment manager's ability to invest on behalf of the Plan. In cases where such factors are deemed to have an irreversible detrimental impact, the Board should have a formal mechanism for taking the appropriate action with respect to the investment manager(s) in question. The procedures and criteria below allow such a process to take place.

For example, one key factor might be an investment manager's investment personnel. What happens if key investment personnel managing a portfolio on behalf of the Plan leave the firm? Since institutional investing is (in a very strong sense) a service business, changes in personnel could significantly alter an investment manager's ability to produce favorable long-term investment results. Another example would be deterioration of an investment portfolio's performance versus a pre-assigned benchmark, or versus other similarly managed portfolios, which might signal a significant change in an investment manager's style or investment process. If the change in process is, indeed, material, then an institution (such as the Plan) that utilizes that investment manager might elect to replace that investment manager with another firm that has a process that better matches the institutional user's original intentions/objectives. Finally, for a variety of reasons, a portfolio's investment performance simply may not prove satisfactory (i.e., consistent and/or prolonged underperformance versus a pre-assigned benchmark). In such cases, the Board may lose confidence in the respective investment manager's ability to add value. The monitoring procedures and criteria provide the Board with a systematic process for taking specific action(s) if such circumstances arise.

2. How the Investment Manager Monitoring Procedures Will Work

As highlighted above, ongoing monitoring of the Plan's investment managers is a necessary component of the Board's fiduciary role. Specifically, these procedures allow the Board to take action if they are not satisfied with specific aspects of an investment manager's activities and/or investment performance. In addition, investment monitoring helps an institution achieve consistent long-term investment success.

These monitoring procedures are designed to take place in sequence in order to provide an ample amount of information and feedback to the Board before any significant changes are decided upon. It is expected that the Board shall delegate all or a portion of these tasks to its investment consultant.

The Board may review and modify investment performance criteria (as outlined below) or other portions of this document periodically on an as needed basis.

There are two major groups of monitoring activities: Ongoing Monitoring and Periodic Monitoring. Both the investment manager and the Board (and/or its investment consultant) conduct certain monitoring functions. A significant aspect of the Ongoing Monitoring activity is the measurement and assessment of investment performance. This procedure is described below.

3. Ongoing Monitoring Activities

<u>Investment Performance Review of Investment Manager(s) and its (their) Investment Portfolio(s)</u>

As part of the ongoing reporting process, the investment manager will report quarterly and trailing annualized performance of the respective portfolio(s) to the Plan and its consultant on a quarterly basis (i.e., every three months). In addition, the investment manager will provide performance attribution statistics that explain the causes of under- or out-performance relative to the established benchmarks.

The investment manager will also report any changes in investment-related personnel, organization or investment approach/strategy that may potentially impact the investment results of the portfolio in question.

Independent Evaluation of Investment Performance by the Plan

The Plan (or its investment consultant) will evaluate investment performance on a quarterly basis using the investment performance criteria outlined below. Such evaluations will also be used to verify the quarterly performance information disclosed by the investment managers themselves (see above). If the investment manager(s) do(es) not meet one or more of the criteria below, the Board will place the specific investment manager(s) on watch status for investment performance reasons.

The quarterly evaluation will indicate (i) whether an investment manager is on watch status; (ii) the reason for watch status, (iii) the approximate date the investment manager and the respective portfolio was placed on watch status, (iv) the length the investment manager has been on watch status, and (v) additional comments. If the investment manager/portfolio was placed on watch status for investment performance reasons, the status report will also include post-watch investment performance to gauge if the investment manager is addressing investment performance issues.

Periodic Monitoring Activities

As part of its ongoing fiduciary responsibilities, as well as in assessing the potential of an investment manager to produce future added value, the Plan and its investment consultant should regularly review several qualitative aspects of an investment manager's management and practices. Key qualitative factors include, but are not limited to:

- Compliance with the guidelines agreed upon for management of the Board's portfolio, including holding unauthorized issues;
- Review of the investment manager(s) investment strategy and style, especially the buy/sell disciplines;
- Review of portfolio activity, specifically the turnover rate, number of holdings, and execution costs;
- Risk profile relative to the portfolio's benchmark;
- Review of organizational structure;
- Stability of investment manager personnel and organization;
- Review of investment manager contractual obligations to the Plan (including management fees);
- Evidence of illegal or unethical behavior by the investment management firm;
- Unwillingness to cooperate with reasonable requests by the Board, such as information, meetings or other material related to its portfolios.

As discussed in the above two sections, certain investment manager(s) may (i) fail to meet pre-established investment performance criteria and/or (ii) may prove sub-standard across any number of qualitative factors. In such cases, the next step would be for the Plan (or the Plan's investment consultant) to produce a document called a Portfolio Review. This Portfolio Review would explain those factors where the investment manager(s) and/or portfolio(s) are failing to meet specific criteria and provide a basis for putting investment manager(s) on watch status. The Portfolio Review would typically be in the form of a memo to the Board.

4. Watch Status of an Investment Manager/Portfolio

The purpose of a watch list is to focus attention and discussion on the managers that need it – due to difficulties or changes. However, being placed on the watch list does not suggest termination is imminent, as all managers, even top performers, experience some periods of underperformance. An investment manager/portfolio attains watch status if at least one of two events occurs: (i) the portfolio's rolling 60 month net return is less than the benchmark's return at two consecutive calendar quarter end dates, or (ii) after the Portfolio Review is conducted, Investment Staff and/or the investment consultant recommends to the Board that an investment manager is a candidate for watch status. However, a manager with less than 60 months of performance with the Plan may be placed on watch for material underperformance relative to the benchmark. An investment manager/portfolio may also be placed on watch at any time as a result of qualitative factors, including but not limited to:

- Violation of investment guidelines
- Deviation from stated investment style and/ or shifts in the firm's philosophy or process
- Turnover of one or more key personnel
- Change in firm ownership or structure
- Significant loss of clients and/or assets under management
- Significant and persistent lack of responsiveness to client requests
- Litigation
- Failure to disclose significant information, including potential conflicts of interest
- Chronic violations of the Plan's Investment Policy
- Any other issue or situation of which the Investment Staff, the Advisory Consultant and/or Board become aware that is deemed material.

The Board then approves or disapproves the recommendation. If the Board approves the recommendation to place a specific investment manager on watch status, Investment Staff will issue a formal notification to the investment manager. This formal notification of watch status will include, but not be limited to, the following items:

- Meeting date when the Board approved the recommendation to place the investment manager on watch;
- Reason(s) for placing the investment manager on watch status; and
- Conditions for being released from watch status (see below).

Typically, once a manager is placed on watch status, it should exhibit improvement before being removed. However, there may be instances resulting from an organizational change/issue where a long watch period is warranted as there could be several material phases to the situation. For example, if a senior investment professional announces their plans to retire in the future in conjunction with the firm's succession plan for their departure, the investment manager would attain watch status at the point of the retirement announcement through the transition period, and after the senior investment professional had left.

Release from Watch Status

Investment managers that show indications of an improvement, as reviewed by the investment consultant and determined by the Board, in one or more of the factors described earlier may be released from watch status. Examples of improvements warranting a change in status are:

- Improved investment performance;
- Investment style characteristics return to, and remain at, levels originally agreed upon;
- Qualitative factors (such as organizational structure stabilizes, personnel adjustments, compliance requirements, etc.) are met/satisfied.

To release an investment manager from watch status, the Board must formally take action to do so. This action should be supported by documentation (produced by Investment Staff and/or investment consultant) similar in format to the Portfolio Review described above. This document would highlight original reasons for the watch status and discussion of how the investment manager has addressed these issues and warrants release from watch status.

Replacement/Termination

If an investment manager is not released from watch status within a reasonable time, then the investment consultant should recommend that the Board replace and/or terminate the investment manager. The Board then approves or disapproves the recommendation.

To terminate and/or replace an investment manager, the Board must formally take action to do so. This action should be supported by documentation (produced by Investment Staff and/or investment consultant) similar in format to the Portfolio Review described above. This document would highlight original reasons for the watch status and discussion of continued developments during watch status that led to the termination/replacement recommendation.

V. Policy for the Use of Placement Agents and Third-Party Marketers

This Policy is intended to supplement any applicable provisions of City, State or Federal law.

Purpose

The goal of this Policy is to prevent impropriety or the appearance of impropriety, to provide transparency and confidence in the decision-making process of the Plan, to help ensure that the Plan's investment decisions are made by the Board solely on the merits of the investment opportunity in accordance with the Board Members' fiduciary responsibility and to help avoid the appearance of undue influence on the Board or illegal pay-to-play practices, in the award of investment related contracts.

This Policy sets forth the circumstances under which the Plan requires the full and timely disclosure of payments to Placement Agents[2] in connection with the Plan's investments. This Policy is intended to apply broadly to all investment contracts. The Plan adopts this Policy to require specific, timely, and updated disclosure of all Placement Agent relationships, compensation, and fees.

This Policy shall apply in addition to, and is intended to supplement, any applicable state and city ethics, campaign finance, and lobbying laws found in the Los Angeles City Charter, Governmental Ethics, Lobbying and Campaign Finance Ordinances, the California Political Reform Act, and the California Constitution.

Notification of this Policy will be sent to all firms that currently provide services to the Plan and all firms considered by Investment Staff or Consultants to be potential interview candidates. The Plan's Board Members, Investment Staff, and Consultants will accept no gifts of any kind from any such firms. Firms who currently have contracts with the Plan will be required to disclose any relationships and payments made to any Placement Agency in relation with the Plan's investments.

Objectives

- Formalize the Plan's practice regarding appropriate disclosure of the use of Placement Agents ensuring that the Plan's investment decisions are consistent with the Plan's Statement of Investment Objectives, Goals, and Guidelines and with the Board's fiduciary duties.
- Make additional information available to the Plan's Board Members, Investment Staff and Consultants when evaluating an investment opportunity to ensure that the use of Placement Agents is identified early during the due diligence process.
- Provide transparency and confidence in the Plan's investment decision-making through maximum disclosure and avoidance of conflicts of interest.

Application

This Policy will apply to each of the Plan's Investment Management Agreements entered into after the date this Policy is adopted, as well as to the Plan's existing Investment Management Agreements.

[2] Any person or entity hired, engaged, retained by, or acting on behalf of an Investment Manager or on behalf of another Placement Agent as a finder, solicitor, marketer, consultant, broker, or other intermediary to market, solicit, obtain access to the Plan, and/or raise money or investments either directly or indirectly from the Plan.

Responsibilities

All investment proposals presented to the Plan shall state whether the Investment Manager ("Manager") uses Placement Agents or third-party marketers, and, if so, shall identify any such Placement Agent or third-party marketer and describe his or her capacity used in relation to the specific mandate.

Responsibilities of the Investment Managers

At the time investment discussions are initiated between the Plan and a Manager, and prior to the Plan investing with any Manager, the Manager shall submit to the Plan's Investment Staff a written statement of whether the Manager or any of its principals, employees, agents, or affiliates has compensated or agreed to compensate any person or entity to act as a Placement Agent or third-party marketer in connection with the Plan investments. If the Manager has used a Placement Agent in connection with any of the Plan investments, the statement should include the following information (Placement Agent Information):

A. The name of the Placement Agent;

B. Description of the amount paid or agreed to be paid to the Placement Agent; and description of the services rendered or the services expected to be performed by the Placement Agent or a third-party marketer, including payment to employees of the Manager who are retained in order to solicit, or who are paid based in whole or in part upon, an investment from the Plan;

C. Representation that the fee paid or payable to the Placement Agent is the sole obligation of the Manager and not an obligation of the Plan or the limited partnership;

D. Clarification as to whether the Placement Agent is utilized by the Manager with all prospective clients or only with a subset of the Manager's clients;

E. Copies of all agreements between the Manager and the Placement Agent and third-party marketers;

F. Résumés of every officer, partner or principal of the Placement Agent or any employee of the Manager providing similar services; résumés shall include: education, professional designations, regulatory licenses and investment and work experience;

G. Full disclosure of any connection between the Placement Agent and the Plan, including whether anyone receiving compensation or will receive compensation with respect to an investment in the Plan from the Placement Agent or the Manager is any of the following: (1) a current or former Plan Board Member, (2) a Plan employee, (3) a Plan consultant, (4) a member of the immediate family of anyone connected to the Plan, (5) a current or former elected or appointed official of the City of Los Angeles ("City"), (6) an employee of the City, (7) anyone seeking to be elected to public office of the City or a member of his/her campaign organization, or a political action committee;

H. Full disclosure of any contributions made by the Placement Agent or the Manager during the prior 24-month period to any organization (including contributions to political campaign funds and donations to non-profits) in which any person listed in (G) is an officer, employee, or member of the Board or Advisory Board (or similar body). Additionally, any subsequent contributions made by the Placement Agent or Manager to any such organization during the time the Placement Agent or Manager is receiving compensation in connection with the Plan investment shall also be disclosed;

I. Full disclosure of the names of any current or former Plan Board Members, Plan employees, or Plan consultants who suggested the retention of the Placement Agent;

J. Name of the regulatory agencies the Placement Agent or any of its affiliates are registered with, such as the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Association ("FINRA"), or any similar regulatory agency; proof and details of such registration shall be included, or an explanation as to why no registration is required;

K. Full disclosure of whether the Placement Agent or any of its affiliates is registered as a lobbyist with the City of Los Angeles, or any state or national government; and

L. If the Manager utilized the services of a person who would otherwise be a Placement Agent but for an applicable exception provided in the California Government Code, a statement identifying the exemption being relied upon by the external manager and certifying that the external manager meets all of the applicable requirements of the exemption.[3]

The Manager shall notify the Plan's Investment Staff of any changes to any of the information required above.

Responsibilities of Investment Staff and Consultants

At the time of the commencement of due diligence for a prospective investment commitment, the applicable Consultants shall provide the applicable Managers and Placement Agents with a copy of this Placement Agent Policy.

Prior to the completion of due diligence and any recommendation to proceed with the engagement of a Manager or the decision to commit Plan assets to an investment, the applicable Consultant shall confirm that it has received all applicable disclosures pursuant to this Policy. For all new contracts and amendments to existing contracts as of the date of the adoption of this Policy, the Plan will:

A. Stop investment negotiations with a Manager who refuses to make all discloses required by this Policy;

B. Decline the opportunity to retain or invest with a Manager who has used or intends to use a Placement Agent who is not registered with the SEC, FINRA, or any similar regulatory agency and cannot provide an explanation acceptable to the Consultant and Investment Staff as to why no registration is required; and

C. Decline the opportunity to retain or invest with a Manager who has used or intends to use a Placement Agent or any of its affiliates that is required by applicable law to be registered as a lobbyist but is not so registered.

Investment Staff and Consultants will assist legal counsel as necessary in securing in the final contract terms and/or side letter agreements between the Plan and the Manager, pursuant to which the Manager:

A. Agrees to comply with this Policy.

[3] i.e., California Government code Section 7513.8, subdivision (d) or 82047.3, which provides for certain exemptions to the definition of a "placement agent."

B. Represents and warrants that it will notify the Plan's Investment Staff of any changes to any of the information required above within 14 calendar days of when the Manager knows or should have known of the change(s).

C. Agrees that it shall not solicit new investments from the Plan for 24 months from the date of determination, in the event that the Plan's Board, in its sole discretion, determines that the Manager has refused or failed to provide all required disclosures pursuant to this Policy, or provided information pursuant to this Policy which is determined by the Plan's Board in its sole discretion to be materially inaccurate.

At any Board or Committee meeting in which the Board or Committee will consider an investment or whether to enter into or renew an investment management contract, the applicable Consultant shall advise the Board of (1) the identity of any Placement Agent used by the Manager in connection with the proposed investment or contract and all applicable Placement Agent Information, and (2) any campaign contributions and/or gifts reported by each Placement Agent.

Investment Staff shall maintain records of all information disclosed to the Plan in accordance with this policy, and provide the Board with notice of any violation of this policy as soon as practicable.

<u>Responsibilities of the Board</u>

The Board shall review each violation reported by Investment Staff and determine whether such violation is material and, if so, whether to instruct Investment Staff not to consider any new investment opportunities for the Plan from that Manager and/or Placement Agent for a period of 24 months from the date of the determination.

<u>No Right of Confidentiality</u>

All disclosures made pursuant to this Policy, and all attachments thereto, shall be public records and subject to disclosure under the California Public Records Act and the Ralph M. Brown Act. No confidentiality restrictions shall be placed on any such disclosures or any information provided pursuant to this Policy.

VI. Securities Lending Cash Collateral Investment Guidelines

In accordance with the Agreement between the Lender and Bank, Cash Collateral received by the Bank on behalf of the Lender shall be held and maintained in a separately managed Cash Collateral Account established and maintained by the Bank for the Lender (the "Cash Collateral Account"), the assets of which shall be invested and reinvested in one or more of the Approved Investments below.

While the Cash Collateral Account will be operated on a cost basis, there is no guarantee that there will not be differences from time to time between the cost and the underlying fair market value of the assets held in the Cash Collateral Account. The cost or book value of the investment assets held in the Cash Collateral Account and their fair market value may differ from time to time. This difference may result in a loss, which is the responsibility of the Lender.

All Approved Investment, Credit Quality, Concentration and Liquidity guidelines set forth herein shall be applicable only at time of purchase (i.e., trade date).

Approved Investments may have fixed or floating interest rate provisions. Floating rate notes will reset no less frequently than quarterly.

Bank and/or Bank Affiliates may provide services with respect to Approved Investments, and may receive compensation with respect to these services. Lender consents to the retention by Bank and Bank Affiliates of such compensation.

A. Approved Investments

1. <u>Instruments</u>

- Obligations of the U.S. Treasury as well as agencies and instrumentalities and establishments of the U.S. Government ("U.S. Government Securities").

- Repurchase transactions (including tri-party repurchase transactions) collateralized at 102% or greater at time of purchase and marked to market on each business day. Collateral will consist of one or more Approved Investments described herein without limitation on maturity, as well as equity securities.

- Obligations issued by the central government of any OECD country and any of their respective agencies, instrumentalities or establishments ("OECD Obligations").

- Obligations issued by 'supranational organizations', including but not limited to African Development Bank, Asian Development Bank, Council of Europe, Eurofima, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Bank for Reconstruction and Development ("World Bank"), International Finance Corporation, and Nordic Investment Bank.

- Commercial paper, notes, bonds and other debt obligations (including funding agreements and guaranteed investment contracts), whether or not registered under the Securities Act of 1933, as amended.

- Certificates of deposit, time deposits and other bank obligations.

- Asset-backed securities, including asset-backed commercial paper.

- Shares of money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940, including affiliated funds of the Bank. (These shares shall be deemed to have a final maturity of one business day for the purposes of the Maturity Guidelines in paragraph D.)

- Units of unregistered, collective investment vehicles sponsored or advised by the Bank or a Bank Affiliate. (These units shall be deemed to have a final maturity of one business day for the purposes of the Maturity Guidelines in paragraph D.)

2. **<u>Currency</u>**

- Shall be limited to the same currency in which the Cash Collateral being invested is denominated.

B. Credit Quality

- Repurchase transaction counterparties must have executed a written repurchase agreement and they, or their parent company, must have a short term rating of at least A-2, P-2 or F2 or equivalent by at least one nationally recognized statistical rating organization ("NRSRO").

- Obligations issued by 'supranational organizations' must be rated AAA or equivalent by at least one NRSRO.

- OECD Obligations, bank obligations, commercial paper (including asset-backed commercial paper), notes, bonds and other debt obligations must be rated at least A-1, P-1 or F1 or equivalent by an NRSRO. Obligations rated by more than one NRSRO must be rated A-1, P-1 or F1 or equivalent by at least two NRSROs. Obligations without a short term rating must have a long term rating of at least A, A2 or A or equivalent by an NRSRO. Obligations that have a long term rating from more than one NRSRO (but no short term rating) must be rated A, A2 or A or equivalent by at least two NRSROs. Obligations that are not rated will be Approved Investments if the issuer of the obligation meets the above rating criteria.

- Asset-backed securities (other than asset-backed commercial paper) must be rated AAA, Aaa or AAA by at least one of the following NRSROs: Standard & Poor's, Moody's or Fitch. Asset-backed securities (other than asset-backed commercial paper) rated by more than one of the foregoing NRSROs must be rated AAA, Aaa or AAA by at least two of: Standard & Poor's, Moody's and Fitch. Asset-backed securities (other than asset-backed commercial paper) that have only short term ratings must be rated A-1+, P-1 or F1+ by a NRSRO. Asset-backed securities (other than asset-backed commercial paper) that have only a short term rating from more than one NRSRO must be rated A-1+, P-1 or F1+ by at least two NRSROs.

- Registered money market funds must be rated in the highest category available to such funds by one NRSRO.

- Collective investment vehicles sponsored or advised by the Bank or a Bank Affiliate do not require a rating by a NRSRO.

- U.S. Government Securities do not require a rating by a NRSRO.

C. Concentration Guidelines

- Excluding U.S. Government Securities, repurchase agreements, shares of money market funds and collective investment vehicles, concentration of any Approved Investment in the Cash Collateral Account will not exceed 5% per issuer.

- A maximum of 25% of the Cash Collateral in the Cash Collateral Account may be invested in repurchase transactions with a single counterparty.

D. Maturity Guidelines

- Approved Investments will have a maximum final maturity of 397 days, except U.S. Government Securities, which shall have a final maturity not exceeding 762 days.

- The weighted average maturity of Approved Investments in the Cash Collateral Account (based on the shorter of final maturity or days to reset for floating rate obligations) shall not exceed 60 days.

- The weighted average life of Approved Investments in the Cash Collateral Account based on final maturity shall not exceed 120 days.

E. Liquidity Guidelines

- All Approved Investments shall be deemed to be liquid at time of purchase, with the exception of time deposits and repurchase agreements having a final maturity greater than 7 days, which shall be deemed to be illiquid for purposes hereof.

- "Illiquid" Approved Investments shall not exceed 5% of the total amount of Approved Investments in the Cash Collateral Account.

- No Approved Investment having a final maturity longer than one business day shall be made if, immediately after such investment, the total amount of Approved Investments in the Cash Collateral Account would have less than 10% of total assets maturing in one business day.

- No Approved Investments other than Weekly Liquid Assets (as defined below) shall be made if, immediately after such investment, the Cash Collateral Account would have less than 30% of total assets invested in Weekly Liquid Assets. Weekly Liquid Assets are defined as cash, direct obligations of the U.S. Government (i.e., bills, bonds and notes), U.S. government agency discount notes with a remaining maturity of 60 days or less, and any other Approved Investments that will mature in, or have an unconditional put option of, five business days or less.

VII. Domestic Equity Guidelines

Domestic equity investment managers retained by the Board will follow specific investment styles and mandates and will be evaluated against specific market benchmarks which represent their investment style, (see Board Resolution 03-23 adopted October 9, 2002). The aggregate developed domestic equity segment will have as its benchmark the Russell 3000. The Board's domestic equity portfolio structural design, with approved benchmarks, is summarized as follows:

Board Approved Domestic Equity Asset Class & Manager Structure

Segment/Style	Active/Passive	Benchmark	% of Asset Class
Total Domestic Equity	70% Active / 30% Passive	Russell 3000	100%
Large Cap Core	Passive	Russell 1000	30%
Large Cap Value	Active	Russell 1000 Value	31%
Large Cap Growth	Active	Russell 1000 Growth	31%
Small Cap Growth	Active	Russell 2000 Growth	4%
Small Cap Value	Active	Russell 2000 Value	4%

The percentage allocations to the various segments reflect the percentage weightings of these segments found in the broad market, as represented by the Russell 3000 Index. Additionally, investment results of active managers will be compared to the returns of a peer group of managers with similar investment styles.

The Plan has appointed Manager(s) to manage a portion of the Plan's assets. These assets will be managed in conformance with the objectives and guidelines delineated below and in accordance with the formal contract with the Retirement Board. General guidelines for domestic equity managers include the following (more specific guidelines for the different investment segments/managers are outlined in the below sections):

1. No securities shall be purchased on margin or sold short.

2. Managers shall not use derivatives within the Portfolio without the expressed written consent of the Plan. If a Manager elects to use derivatives as part of its investment strategy, the Plan requires that the Manager provide written documentation of the rationale for using such instruments. Use of derivatives for speculation is prohibited. Only exchange-traded derivatives will be utilized.

3. Exchange listed futures and options on equity instruments may be used only if authorized in writing by the Board as a risk reducing strategy.

4. Convertible securities can be held in equity portfolios and will be considered equity holdings.

5. Unless stated otherwise below, managers shall not purchase stock (or securities convertible into stock) of any single corporation if the purchase would cause their portfolio to include more than 5% of the outstanding voting stock of a company, or more than 2% in (the lesser of cost or market) value (assuming all shares are converted) of the assets of the Fund.

6. Managers shall invest in securities specifically authorized in these written guidelines. Unauthorized investments include foreign securities listed and traded on U.S. exchanges, including American Depository Receipts ("ADRs"). Securities of all foreign companies, except for Benefit Driven Incorporations ("BDIs") included in the Manager's respective benchmark as outlined below, are unauthorized. Additional unauthorized investments

include short sales, futures, direct investment in raw commodities, and the use of non-approved derivative securities (i.e. equity futures and forward contracts), and/or the purchase of securities on margin.

7. Other applicable plan and charter investment restriction must be complied with.

8. Any exemption or variation from these general guidelines requires prior written approval from the Board.

7.1 Passive Domestic Equity Guidelines

Portfolio Component Definition

The Manager will manage a Russell 1000 Index Fund ("Fund") for the Plan that will provide equity participation in industry sectors with market capitalization approximately in proportion to their share of the market as represented by the Russell 1000 Index. The focus of the portfolio will be the tracking of the equity market for large and mid-sized companies over both short-term and long-term horizons. The goal is to closely track the performance of the Russell 1000 Index within +/- 10 basis points annually.

Portfolio Guidelines

1. The portfolio shall be equity securities of companies doing business in the United States. It is expected that the portfolio will be fully invested (<1% cash). Equity securities shall be restricted to those issues listed on the New York, NASDAQ, or other nationally recognized United States stock exchanges.

2. The Board recognizes the Manager uses a computer-generated statistical data technique or statistical sampling technique/s in tracking the Russell 1000 Index.

3. For prudent diversification, no more than 5% of the lesser of cost or market value of the portfolio, shall be invested in any one issue, unless that issue represents more than 5% of the Russell 1000 Index. No issue shall be purchased in the portfolio if more than 10% of the outstanding shares of that company are held by the Manager in the total of all of its accounts.

Performance Objectives

On an annual basis, the Manager is expected to perform in-line with the Russell 1000 Index return, net of fees. It is expected that, on an annual basis, the portfolio will produce investment returns that vary no more than +/- 10 basis points from the investment performance of the Russell 1000 Index.

7.2 Active Large Cap Value Domestic Equity Guidelines

Portfolio Component Definition

The Manager(s) will manage an active value portfolio ("Portfolio") for the Plan that will provide equity participation in industry sectors with market capitalization representative of the Russell 1000 Value Index. Given this orientation, the goal of the Portfolio is to provide superior performance versus the Russell 1000 Value Index over a complete investment cycle.

Portfolio Guidelines

1. The Portfolio shall be equity securities of companies doing business in the United States. It is expected that the Portfolio will be fully invested (<5% cash). Equity securities shall be restricted to those issues listed on the New York, NASDAQ, or other nationally recognized United States stock exchanges.

2. The Board recognizes the Manager is an active manager investing in a universe of securities that resembles the Russell 1000 Value Index. The Manager will adjust its Portfolio on an ongoing basis to attempt to outperform the investment results of the Russell 1000 Value Index.

3. For prudent diversification, no more than 5% of the lesser of cost or market value of the Portfolio shall be invested in any one issue, unless that issue represents more than 5% of the Russell 1000 Value Index. In such cases, the maximum amount allowed is 125% of the benchmark weight. At no time shall any specific issue represent more than 10% of the portfolio. In addition, no issue shall be purchased in the Portfolio if more than 10% of the outstanding shares of that company are held by the Manager in the total of all of its accounts.

Portfolio Characteristics

1. It is expected that the Portfolio's weighted average price/earnings ratio on a 12-month trailing basis in general will be no greater than 1.5x the market as represented by Russell 1000 Value Index.

2. It is expected that the Portfolio's weighted average dividend yield on a quarterly basis will generally be no less than 2/3rds the market as represented by the Russell 1000 Value Index.

4. It is expected that the Portfolio's weighted average market capitalization should generally be no less than one-half of the Russell 1000 Value Index.

Performance Objectives

On an annual basis, the Manager is expected to outperform the Russell 1000 Value Index return, net of fees, to be measured over a market cycle of three-to-five years.

7.3 Active Large Cap Growth Domestic Equity Guidelines

Portfolio Component Definition

The Manager(s) will manage an active growth portfolio ("Portfolio") for the Plan that will provide equity participation in industry sectors with market capitalization representative of the Russell 1000 Growth Index. Given this orientation, the Manager is expected to provide superior performance versus the Russell 1000 Growth Index over a complete investment cycle.

Portfolio Guidelines

1. The Portfolio shall be equity securities of companies doing business in the United States. It is expected that the Portfolio will be fully invested (<5% cash). Equity securities shall be restricted to those issues listed on the New York, NASDAQ, or other nationally recognized United States stock exchanges.

2. The Board recognizes the Manager is an active manager investing in a universe of securities that resembles the Russell 1000 Growth Index. The Manager will adjust its Portfolio on an ongoing basis to attempt to outperform the investment results of the Russell 1000 Growth Index.

3. For prudent diversification, no more than 5% of the Portfolio at the lesser of cost or market value shall be invested in any one issue, unless that issue represents more than 5% of the Russell 1000 Growth Index. In such cases, the maximum amount allowed is 125% of the benchmark weight. At no time shall any specific issue represent more than 10% of the lesser of cost or market value of the portfolio. In addition, no issue shall be purchased in the Portfolio if more than 10% of the outstanding shares of that company are held by the Manager in the total of all of its accounts. See exception below.

Portfolio Characteristics

1. It is expected that the Portfolio's weighted average price/earnings ratio on a 12-month trailing basis in general will be no less than 2/3rds of the market as represented by Russell 1000 Growth Index.

2. It is expected that the Portfolio's weighted average dividend yield on a quarterly basis will generally be no greater than 1.5x of the market as represented by the Russell 1000 Growth Index.

3. The Portfolio's weighted average market capitalization should generally be no less than one-half of the Russell 1000 Growth Index.

Performance Objectives

On an annual basis, the Manager is expected to outperform the Russell 1000 Growth Index return, net of fees, to be measured over a market cycle of three-to-five years.

Exception

1. For T. Rowe Price Large Cap Growth, no issue shall be purchased in the Portfolio if more than 15% of the outstanding shares of that company are held by the Manager in the total of all of its accounts.

7.4 Active Small Cap Value Domestic Equity Guidelines

Portfolio Component Definition

The Manager(s) will manage an active value portfolio ("Portfolio") for the Plan that will provide equity participation in industry sectors with market capitalization representative of the Russell 2000 Value Index. Given this orientation, the goal of the Portfolio is to provide superior performance versus the Russell 2000 Value Index over a complete investment cycle.

Portfolio Guidelines

1. The Portfolio shall be equity securities of companies doing business in the United States. It is expected that the Portfolio will be fully invested (<5% cash). Equity securities shall be restricted to those issues listed on the New York, NASDAQ, or other nationally recognized United States stock exchanges.

2. The Board recognizes the Manager is an active manager investing in a universe of securities that resembles the Russell 2000 Value Index. The Manager will adjust its Portfolio on an ongoing basis to attempt to outperform the investment results of the Russell 2000 Value Index.

3. For prudent diversification, no more than 5% of the Portfolio at the lesser of cost or market value shall be invested in any one issue, unless that issue represents more than 5% of the Russell 2000 Value Index. No issue shall be purchased in the Portfolio if more than 15 % of the outstanding shares of that company are held by the Manager in the total of all of its accounts.

4. Exchange Trade Funds ("ETFs") may be used to temporarily invest excess cash.

Portfolio Characteristics

1. It is expected that the Portfolio's weighted average price/earnings ratio on a trailing 12-month basis in general will be no greater than 1.5x of the market as represented by Russell 2000 Value Index.

2. It is expected that the Portfolio's weighted average dividend yield on a quarterly basis will generally be no less than 2/3rds of the market as represented by the Russell 2000 Value Index.

3. It is expected that the Portfolio's weighted average market capitalization should generally be no less than one-half of the weighted average market capitalization of the Russell 2000 Value Index.

Performance Objectives

On an annual basis the Manager is expected to outperform the Russell 2000 Value Index return, net of fees, to be measured over a market cycle of three-to-five years.

7.5 Active Small Cap Growth Domestic Equity Guidelines

Portfolio Component Definition

The Manager(s) will manage active growth portfolio ("Portfolio") for the Plan that will provide equity participation in industry sectors with market capitalization representative of the Russell 2000 Growth Index. Given this orientation, the goal of the Portfolio is to provide superior performance versus the Russell 2000 Growth Index over a complete investment cycle.

Portfolio Guidelines

1. The Portfolio shall be equity securities of companies doing business in the United States. It is expected that the Portfolio will be fully invested (<5% cash). Equity securities shall be restricted to those issues listed on the New York, NASDAQ, or other nationally recognized United States stock exchanges.

2. The Board recognizes Managers are active managers investing in a universe of securities that resembles the Russell 2000 Growth Index. Managers will adjust their Portfolio on an ongoing basis to attempt to outperform the investment results of the Russell 2000 Growth Index.

3. For prudent diversification, no more than 5% of the lesser of cost or market value of the Portfolio shall be invested in any one issue, unless that issue represents more than 5% of the Russell 2000 Growth Index. No issue shall be purchased in the Portfolio if more than 10% of the outstanding shares of that company are held by Managers in the total of all of its accounts.

Portfolio Characteristics

1. It is expected that the Portfolio's weighted average price/earnings ratio on a 12-month trailing basis in general will be no less than 2/3rds of the market as represented by Russell 2000 Growth Index.

2. It is expected that the Portfolio's weighted average dividend yield on a quarterly basis will generally be no greater than 1.5x of the market as represented by the Russell 2000 Growth Index.

3. It is expected that the Portfolio's weighted average market capitalization should generally be no less than one-half of the weighted average market capitalization of the Russell 2000 Growth Index.

Performance Objectives

On an annual basis Managers are expected to outperform the Russell 2000 Growth Index return, net of fees, to be measured over a market cycle of three-to-five years.

VIII. International Equity Guidelines

Non-U.S. equity (International Equity) investment managers retained by the Board will follow specific investment mandates and will be evaluated against specific market benchmarks which represent their investment mandates, (see Board Resolution 03-22, adopted October 9, 2002). The aggregate international equity segment will have as its benchmark the MSCI ACWI ex-U.S. IMI ND Index. The Board's International Equity structural design, with approved benchmarks, are summarized as follows:

Board Approved Non-U.S. Equity Asset Class & Manager Structure

Segment/Style	Active/Passive	Benchmark	% of Asset Class
Total Non-U.S. Equity	Active	MSCI ACWI ex-U.S. IMI ND	100%
Developed Non-U.S.	Passive	MSCI World ex-U.S. IMI ND	26%*
Developed Non-U.S.	Active	MSCI World ex-U.S. IMI ND	50%*
Emerging Markets	Active	MSCI Emerging Mkts IMI ND	24%*

MSCI ACWI ex-US IMI ND = Morgan Stanley Capital International All Country World Equity Investable Market Index, Excluding the U.S.
MSCI World ex US IMI ND = Morgan Stanley Capital World Equity Investable Market Index, excluding the U.S.
MSCI Emerging Markets IMI ND = Morgan Stanley Capital International Emerging Markets Equity Investable Market Index.
*Allocation to Developed Non-U.S. and Emerging Markets based on 6/30/11 market weight of the MSCI ACWI ex-U.S. IMI ND.

The percentage allocations of the various segments reflect the percentage weightings of these segments found in the broad Non-U.S. equity market, as represented by the MSCI ACWI ex-U.S. Investable Market Index. Additionally, investment results of active managers will be compared to the returns of a peer group of managers with similar investment styles.

The Plan has appointed Manager(s) to manage a portion of the Plan's assets. These assets will be managed in conformance with the objectives and guidelines delineated below and in accordance with the formal contract with the Retirement Board. General guidelines for active Non-U.S. equity managers include the following (more specific guidelines for the different investment segments/managers are outlined in the below sections):

1. Portfolios shall be comprised of debt instruments convertible into equity securities, forward foreign exchange contracts, and equity securities of companies domiciled outside the U.S. including established and emerging countries.

2. Although a fully invested position is encouraged, cash equivalents are also permissible as a transitional/temporary investment subject to permanent investment.

3. Managers shall not use (non-currency) derivatives within the Portfolio without the expressed written consent of the Plan. If a Manager elects to use derivatives as part of its investment strategy, the Plan requires that the Manager provide written documentation of the rationale for using such instruments. Use of derivatives for speculation is prohibited. Only exchange-traded derivatives will be utilized.

4. Managers shall not purchase stock (or securities convertible into stock) of any single corporation if the purchase would cause their portfolio to include more than 5% of the outstanding voting stock of a company, or more than 2% in (the lesser of cost or market) value (assuming all shares are converted) of the assets of the Fund.

5. No securities shall be purchased on margin or sold short.

6. Other applicable plan and charter investment restriction must be complied with.

7. Any exemption or variation from these general guidelines requires prior written approval from the Board.

8. While the aggregate developed non-U.S. equity segment will have as its benchmark the MSCI ACWI ex-U.S. Investable Market Index ND, managers within this segment will be assigned more specific style-oriented performance benchmarks.

8.1 Passive International Equity Guidelines

The Plan's assets will be invested in a commingled fund. As a result, these guidelines generally conform to the Manager's guidelines for the existing commingled MSCI World ex-U.S. Equity Investable Market Index ND Index Fund.

Portfolio Component Definition

The Manager will manage a MSCI World ex-U.S. Equity IMI ND Index Fund ("Fund") for the Plan that will provide equity participation in industry sectors with market capitalization approximately in proportion to their share of the market as represented by the MSCI World ex-U.S. Equity IMI ND Index. The focus of the portfolio will be the tracking of the equity market for large, mid, and small-sized companies over both short-term and long-term horizons. The goal is to closely track the performance of the MSCI World ex-U.S. Equity IMI ND Index within +/- 30 basis points annually.

Portfolio Guidelines

1. The portfolio shall be equity securities of companies doing business outside the United States. It is expected that the portfolio will be fully invested (<1% cash). Equity securities shall be those issues listed on the major local-country stock exchanges. At times when direct ownership is precluded, American Depository Receipts ("ADR's") may be substituted in order to maintain full exposure to the underlying index.

2. The Board recognizes the Manager uses a computer-generated statistical data technique or statistical sampling technique/s in tracking the MSCI World ex-US IMI ND Index.

3. For prudent diversification, the Manager shall seek to hold securities in the MSCI World ex-U.S. IMI ND Index as precisely matching their market weight as possible on an ongoing basis.

Performance Objectives

On an annual basis, the Manager is expected to perform in-line with the MSCI World ex-U.S. IMI ND Index return, net of fees. It is expected that, on an annual basis, the portfolio will produce investment returns that vary no more than +/- 30 basis points from the investment performance of the MSCI World ex-US IMI ND Index.

8.2 Active Growth International Equity Guidelines

Portfolio Component Definition

The Manager(s) will manage an active international growth equity portfolio ("Portfolio") for the Plan that is expected to invest in companies located in developed non-US markets that possess significant amounts of liquidity and capitalization. Emphasis shall be placed on medium and larger capitalized stocks.

Portfolio Guidelines

1. The Portfolio shall be composed of cash equivalents and equity securities of companies doing business outside the United States with minimum market capitalizations of $200 million. Equity securities shall be restricted to those issues listed on the major local-country stock exchanges. The markets that the Portfolio can invest in are those within the following indices:

    a. MSCI World ex-U.S. Growth IMI ND

    b. MSCI World ex-U.S. Equity IMI ND

    SEC Rule 144A international equity instruments with registration rights are fully permissible. Those instruments without registration rights must not exceed 10% of the lesser of cost or market value of any single international equity portfolio.

    American Depository Receipts ("ADRs") are permissible up to 2.5% of the total portfolio.

    Investing in Emerging Markets is prohibited. Emerging Markets shall be defined as those countries included in the MSCI Emerging Markets Investable Market Index ND.

    In order to minimize transaction costs and market impact associated with country reclassification, and as MSCI reclassifies specific countries from one market to another (such as from emerging to developed or frontier to emerging), the Portfolio, with advance notification to the Retirement Plan Manager, may invest in such countries, subsequent to the announcement of MSCI's formal reclassification and prior to its effective date.

2. Currency hedging up to a maximum of 25% of the portfolio value (notional) is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts and put and call options.

3. For prudent diversification the portfolio shall have a minimum of 30 issues quoted in at least 10 stock markets, although assets will not be specifically allocated to individual countries or markets. The maximum exposure to any individual issue will be no greater than the weight of the issue in the benchmark plus 3%. In addition, no issue shall be purchased in the portfolio if more than 15% of the outstanding shares of that company are held by the Portfolio in the total of all of its accounts. The Portfolio is required to identify to the Plan, on a quarterly basis, those holdings/issues in the portfolio where the Portfolio holds more than 10% of the outstanding shares in the total of its accounts.

5. The cash equivalent portion should not normally exceed 10% of the portfolio. Cash equivalents may be U.S. dollar or non-U.S. dollar denominated.

Portfolio Characteristics

1. It is expected that the portfolio will invest across a broad array of countries within the MSCI World ex U.S. Growth IMI ND and MSCI World ex U.S. Equity IMI ND. Regional and country weights, however, may vary significantly from the index.

2. It is expected that the portfolio's weighted average price/earnings ratio on a trailing 12-month basis in general will be within a +/- 0.5x range of the market as represented by MSCI World ex U.S. Growth IMI ND or MSCI World ex U.S. Equity IMI ND.

3. It is expected that the portfolio's weighted average dividend yield on a quarterly basis will generally be within a +/- 0.5x range of the market as represented by the MSCI World ex U.S. Growth IMI ND or MSCI World ex U.S. Equity IMI ND.

Performance Objectives

On an annual basis the Portfolio is expected to outperform the MSCI World Growth ex U.S. IMI ND return, net of fees, to be measured over a market cycle of three-to-five years.

8.3 Active Value International Equity Guidelines

Portfolio Component Definition

The Manager(s) will manage active international value equity portfolio ("Portfolio") for the Plan that is expected to invest in companies located in developed non-US markets that possess significant amounts of liquidity and capitalization. Emphasis shall be placed on medium and larger capitalized stocks.

Portfolio Guidelines

1. The Portfolio shall be composed of cash equivalents and equity securities of companies doing business outside the United States (as defined using MSCI classification of issuer or issue) with minimum market capitalizations of $200 million. Equity securities shall be restricted to those issues listed on the major local-country stock exchanges. The markets that the Portfolio can invest in are those within the following indices:

   a. MSCI World ex-U.S. Value IMI ND

   b. MSCI World ex-U.S. Equity IMI ND

   SEC Rule 144A international equity instruments with registration rights are fully permissible. Those instruments without registration rights must not exceed 10% of the lesser of cost or market value of any single international equity portfolio.

   American Depository Receipts ("ADRs") are permissible up to 2.5% of the total portfolio.

   Investing in Emerging Markets is prohibited. Emerging Markets shall be defined as those countries included in the MSCI Emerging Markets Investable Market Index ND.

   In order to minimize transaction costs and market impact associated with country reclassification, and as MSCI reclassifies specific countries from one market to another (such as from emerging to developed or frontier to emerging), the Portfolio, with advance notification to the Retirement Plan Manager, may invest in such countries, subsequent to the announcement of MSCI's formal reclassification and prior to its effective date.

2. Currency hedging up to a maximum of 25% of the portfolio value (notional) is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts and put and call options.

3. For prudent diversification the portfolio shall have a minimum of 30 issues quoted in at least 10 stock markets, although assets will not be specifically allocated to individual countries or markets. No more than 5% of the portfolio at the lesser of cost or market value shall be invested in any one issue. In addition, no issue shall be purchased in the Portfolio if more than 15% of the outstanding shares of that company are held by the Manager in the total of all of its accounts.

5. The cash equivalent portion should not normally exceed 10% of the portfolio. Cash equivalents may be U.S. dollar or non-U.S. dollar denominated.

Portfolio Characteristics

1. It is expected that the portfolio will invest across a broad array of countries within the MSCI

World ex U.S. Value IMI ND, and MSCI World ex U.S. Equity IMI ND. Regional and country weights, however, may vary significantly from the index.

2. It is expected that the portfolio's weighted average price/earnings ratio on a trailing 12-month basis in general will be within a+/- 0.5x range of the market as represented by MSCI World ex U.S. Value IMI ND, MSCI World ex U.S. Equity IMI ND.

3. It is expected that the portfolio's weighted average dividend yield on a quarterly basis will generally be within a +/- 0.5x range of the market as represented by the MSCI World ex U.S. Value IMI ND, MSCI World ex U.S. Equity IMI ND.

Performance Objectives

On an annual basis the Portfolio is expected to outperform the MSCI World Value ex U.S. IMI ND return, net of fees, to be measured over a market cycle of three-to-five years.

8.4 Active Emerging Markets Equity Guidelines

Portfolio Component Definition

The Manager(s) will manage an active portfolio ("Portfolio") for the Plan that will provide equity participation in companies that have a significant interest in developing markets. Given this orientation, the goal of the Portfolio is to provide superior performance versus the MSCI EM IMI ND over a complete investment cycle.

Portfolio Guidelines

1. The Portfolio shall be composed of securities of non-U.S. domiciled companies doing business in emerging markets with minimum market capitalizations of $100 million. Equity securities shall be restricted to those issues traded on recognized exchanges or traded over the counter. The markets that Manager(s) can invest in are those within the MSCI EM IMI ND.

   SEC Rule 144A international equity instruments with registration rights are fully permissible. Those instruments without registration rights must not exceed 10% of the lesser of cost or market value of any single international equity portfolio.

   In order to minimize transaction costs and market impact associated with country reclassification, and as MSCI reclassifies specific countries from one market to another (such as from emerging to developed or frontier to emerging), the investment manager, with advance notification to the Retirement Plan Manager, may invest in such countries, subsequent to the announcement of MSCI's formal reclassification and prior to its effective date.

2. Currency hedging up to a maximum of 25% of the portfolio value (notional) is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts and put and call options.

3. Diversity shall be achieved both geographically and by industry sector. No more than 7% of the lesser of cost or market value of the portfolio shall be invested in any one issue. No issue shall be purchased in the portfolio if more than 10% of the outstanding shares of that company are held by Manager(s) in the total of all of its accounts.

4. The cash equivalent portion should not normally exceed 10% of the portfolio. Cash equivalents may be U.S. dollar or non-U.S. dollar denominated.

5. Turnover in the portfolio shall not normally exceed 200% in any twelve month period. Turnover shall be defined as the total dollar value of the lesser of purchases or sales divided by the market value of the portfolio at the beginning of the period.

Portfolio Characteristics

1. It is expected that the portfolio will invest across a broad array of countries within the MSCI EM IMI ND. Regional and country weights, however, may vary significantly from the index.

2. It is expected that the portfolio's weighted average price/earnings ratio on a trailing 12-month basis, in general will be within a +/- 0.5x range of the market as represented by MSCI EM IMI ND.

3. It is expected that the portfolio's weighted average dividend yield on a quarterly basis will be

within a +/- 0.5x range of the market as represented by the MSCI EM IMI ND.

Performance Objectives

On an annual basis, the Manager(s) is expected to outperform the MSCI EM IMI ND return, net of fees, to be measured over a market cycle of three-to-five years.

IX. Fixed Income Guidelines

The fixed income portfolios will be managed on a total return basis, following specific investment mandates and evaluated against specific market benchmarks which represent a specific investment mandate or market segment (see Board Resolution 13-91 of June 26, 2013). The aggregate fixed income segment will have as its benchmark the custom benchmark described in the below table. The Board's fixed income structural design, with approved benchmarks, is summarized as follows:

Board Approved Fixed Income Asset Class & Manager Structure

Segment/Style	Active/ Passive	Benchmark	% of Asset Class
Total Fixed Income	Active	50% Barclays U.S. Intermediate Aggregate ex. Credit 30% Barclays Global Credit (hedged) 15% Barclays Global High Yield (hedged) 5% Credit Suisse Leveraged Loan Index	100%
Principal Protection	Active	Barclays U.S. Intermediate Aggregate ex. Credit	50%
Extended Global Credit	Active	66.67% Barclays Global Credit (hedged) 33.33% Barclays Global High Yield (hedged)	45%
U.S. Bank Loans	Active	Credit Suisse Leveraged Loan Index	5%

The percentage allocations of the various segments reflect the strategic allocations as approved by the Board (see Board Resolution 13-91). Additionally, investment results of active managers will be compared to the returns of a peer group of managers with similar investment styles.

The Plan has appointed Manager(s) to manage a portion of the Plan's assets. These assets will be managed in conformance with the objectives and guidelines delineated below and in accordance with the formal contract with the Retirement Board. General guidelines for fixed income managers include the following (more specific guidelines for the different investment segments/managers are outlined in the below sections):

1. Any investments in securities (including, but not limited to, Build America Bonds, Recovery Zone Economic Development Bonds, Tax Credit Bonds, et. al.) issued by the City of Los Angeles and/or any of its affiliates are not permitted and should not be held in the Plan's portfolio.

2. Although a fully invested position is encouraged, cash equivalents are also permissible as a transitional/temporary investment, subject to permanent investment.

3. Managers are expected to have performed thorough due diligence on each security purchased (which may include, but is not limited to, the analysis of company audited financial statements in the case of corporate holdings, relevant government reports and records, etc.), and such due diligence must be available for each investment in case of a Plan audit.

4. No securities shall be purchased on margin or sold short other than any initial and maintenance margin required in connection with futures transactions which may be used only for risk management purposes.

5. If a manager exceeds the portfolio produces characteristic limitations in these guidelines (or the below more specific guidelines), the manager is required to report these results to the Plan in a timely manner.

9.1 Active Principal Protection Guidelines

Portfolio Component Definition

Manager(s) will manage an active portfolio ("Portfolio") for the Plan that will utilize high quality fixed income securities, with a shorter duration portfolio positioning than the broad fixed income market. Given this orientation, the goal of the Portfolio is to provide superior performance versus the Barclays U.S. Intermediate Aggregate ex. Credit Bond Index over a complete investment cycle of three-to-five years.

Portfolio Guidelines

1. The portfolio shall be composed of investment-grade fixed income securities as defined by Barclays (the publisher of the Barclays Indices). Barclays defines an investment grade bond as follows: If a bond is rated by all three rating agencies (Moody's, S&P, Fitch), then it must be rated investment grade (BBB- or Baa3) by two or more rating agencies. If a bond is rated by two rating agencies, the lowest rating determines investment grade status. If only one rating agency rates the bond, then that rating must be at least BBB- or Baa3.

   In the event of a downgrade below Baa3 or BBB-, Manager(s) must notify the Plan about the quality of the issue and make a recommendation on either the retention or deletion of the bond from the portfolio.

   There may be instances when debt issues convert into equity-oriented securities (i.e. preferred stock, common stock or warrants to purchase other equity securities). To handle these situations, managers are allowed to hold equity-oriented positions when received in exchange for, or conversion or cancellation of debt securities held in the portfolio. The manager(s) is required to inform the Plan 30 days prior to the conversion when they intend to hold the resulting equity-oriented positions. Equity-oriented securities can be held in the portfolio no longer than three months. The manager(s) is required to provide 30 days advance notice to extend the holding period beyond the original three month period. No more than 5% of the portfolio shall be invested in equity-oriented securities resulting from fixed-to-equity exchanges.

2. No more than 5% of the portfolio at the lesser of cost or market value will be invested in any one issuer, with the exception of U.S. Treasury, U.S. Agency and Government Sponsored Enterprises, or Government-Supported issuers (defined below).

3. Non-benchmark markets holdings (excluding cash) shall be limited to 20% of a single manager portfolio. Benchmark markets are based on currency denomination and security type (e.g., USD U.S. Treasury bonds, USD U.S. Agency bonds, etc.). Security type is based on Barclays' Class 2 sector classifications and instrument (e.g., bond versus loan). For example, a 30-year U.S. Treasury Bond would be considered a benchmark market security, even though it is not in the benchmark.

4. Permissible non-benchmark markets are limited to Government-Supported securities, agency mortgage-backed TBAs and dollar rolls, agency mortgage-backed CMOs, and 144a securities. Non-benchmark markets holdings are subject to the investment grade rating requirement. Corporate Debt is not permissible.

5. Government-Supported securities are defined as Supranationals, Local Authorities, sovereign debt of OECD governments, and equivalently-rated agencies of OECD governments.

6. Derivatives used for substitution, risk control, and arbitrage strategies are permitted. Use of derivatives for speculation is prohibited. For non-exchange traded derivatives, counterparty credit status shall be of the highest caliber with care taken to avoid credit guarantees extended through to parties less creditworthy than the primary counterparty in the transaction. Counterparty exposure is limited to firms with a short-term credit rating of at least A1/P1, single counterparty exposure limited to 5% of the cost value of the aggregate portfolio as well as any specific manager portfolio. Borrowed funds shall not be used.

7. For prudent diversification, the portfolio shall have a minimum of 25 issues. Additionally, the combined allocation to ABS and CMBS cannot represent more than the greater of 10% or the benchmark weight plus 5% in the portfolio.

8. The cash equivalent portion should not normally exceed 10% of the portfolio.

Portfolio Characteristics

1. The acceptable modified duration band around the Barclays U.S. Intermediate Aggregate ex. Credit Index is ± 2 years.

Performance Objectives

On an annual basis, Manager(s) is/are expected to outperform the Barclays U.S. Intermediate Aggregate ex. Credit Index return, net of fees, to be measured over a market cycle of three-to-five years.

9.2 Active Extended Global Credit Guidelines

Portfolio Component Definition

Manager(s) will manage an active portfolio ("Portfolio") for the Plan that will provide participation in the higher return and higher volatility segments of the fixed income market. Given this orientation, the goal of the Portfolio is to provide superior performance versus the blended 66.67% Barclays Global Credit Bond Index (hedged) / 33.33% Barclays Global High Yield Index (hedged) over a complete investment cycle of approximately three-to-five years.

Portfolio Guidelines

1. The portfolio shall be composed of securities throughout the credit risk spectrum, as defined by Barclays (the publisher of the Barclays Indices). Barclays defines a non-investment grade bond as follows: If a bond is rated by all three rating agencies (Moody's, S&P, Fitch), then it must be rated non-investment grade (BB+ or Ba1) by two or more rating agencies. If a bond is rated by two rating agencies, it must be rated below investment grade by at least one rating agency. If only one rating agency rates the bond, then a rating below BBB-or Baa3 is considered non-investment grade. The portfolio may contain investment grade, non-investment grade, and unrated bonds.

   In the event of a downgrade below single C, or in the case of a default, Manager(s) must notify the Plan of the downgrade within two days of the date that the downgrade occurs. In the event of a downgrade below single C, or in the case of a default, if the Manager(s) elects to retain the bond in the portfolio the Manager(s) must inform the Plan of the downgrade within two days of the date that the downgrade occurs, and provide a rationale for continued retention of the holding.

   There may be instances when debt issues convert into equity-oriented securities (i.e. preferred stock, common stock or warrants to purchase other equity securities). To handle these situations, fixed income managers are allowed to hold equity-oriented positions when received in exchange for, or conversion or cancellation of debt securities held in the portfolio. The manager(s) is required to inform the Plan 30 days prior to the conversion when they intend to hold the resulting equity-oriented positions. Equity-oriented securities can be held in the portfolio no longer than six months. The manager(s) is required to provide 30 days advance notice to extend the holding period beyond the original six-month period. No more than 10% of the portfolio shall be invested in equity-oriented securities resulting from fixed-to-equity exchanges.

2. Non-benchmark markets holdings (excluding cash and excluding Government-Supported) shall be limited to 50% of a single manager portfolio. Benchmark markets are based on currency denomination and security type (e.g., USD corporate industrial bonds, EUR corporate financial bond, etc.). Security type is based on Barclays' Class 2 sector classifications and instrument (e.g., bond versus loan).

3. No more than 60% of a single manager portfolio may be invested in below investment grade (Baa3 or BBB-) / unrated securities.

4. Non-benchmark Government-Supported markets holdings shall be limited to 40% of a single manager portfolio.

5. Government-Supported securities are defined as Supranationals, Local Authorities, U.S. Treasuries, sovereign debt of OECD governments, U.S. Agencies and Government

Sponsored Enterprises, and equivalently-rated agencies of OECD governments.

6. Minimum issuance size is $100 million.

7. Foreign net currency exposure shall be limited to 35%.

8. Foreign gross currency exposure shall be limited to 70%.

9. Currency exposure is measured as the absolute value of all country-level currency positions versus the U.S. dollar.

10. No more than 5% of the lesser of cost or market value will be invested in any one issuer, with the exception of Government-Supported securities.

11. No more than 20% of the lesser of cost or market value will be invested in any one industry (as defined by Barclays), with the exception of Government-Supported securities.

12. Derivatives may be managed to protect market value and to maximize total returns, subject to the following guidelines:

    a. Eligible applications include but are not limited to the purchase, sale, exchange, conversion or other trade of exchange traded index option contracts, over-the-counter options, international fixed income futures, domestic fixed income futures and swaps.

    b. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivatives application.

    c. Excluding FX derivatives maintained to hedge currency risk, the maximum investment, as measured by net notional amount, in derivative instruments will be 100% of the portfolio's total market value.

    d. In order to limit the financial risks associated with derivative applications, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk. If utilized, the counterparty must be of an investment grade credit and the agreement must be marked to market no less frequently than monthly.

    e. Borrowed funds shall not be used.

13. For prudent diversification, the portfolio shall have a minimum of 25 issues.

14. The cash equivalent portion should not normally exceed 10% of market value of the portfolio. Cash equivalents held backing derivatives are excluded from the 10% limit. Exchange Traded Funds ("ETFs") may be used to temporarily invest excess cash and provide short-term liquidity and/or market exposure. Investments in ETFs count toward the 10% cash equivalent limit. ETF allocations shall be included in the calculation of portfolio guideline limitations based on underlying ETF holdings. Cash equivalents are defined as follows:

    a. For Delaware Investments cash equivalents are defined as short-term investment vehicles (e.g., STIF accounts) or money market funds maintained by the custodian bank. Other high-quality, cash equivalent investments are permitted, including: commercial paper, certificates of deposit, discount notes, bankers acceptance notes, Treasury Bills, floating-rate notes, and collateralized repurchase agreements. To be considered high-quality, a security generally must carry a short-term rating of A2P2 or better.

b. For Neuberger Berman cash equivalents are defined as Treasury securities with a maturity of 3 months or less.

15. No more than 20% of the lesser of cost or market value will be invested in commingled funds managed by the manager. When investing in commingled funds the manager shall rebate all investment management fees associated with use of these funds. Commingled fund allocations shall be included in the calculation of portfolio guideline limitations based on underlying commingled fund holdings. Commingled funds should be used as a tool for making tactical investments and investments should generally be for periods of less than 6 months.

Portfolio Characteristics

1. The acceptable modified duration band around the 66.67% Barclays Global Credit (hedged) / 33.33% Barclays Global High Yield (hedged) Index ± 4 years.

Performance Objectives

On an annual basis, Manager(s) is/are expected to outperform the 66.67% Barclays Global Credit (hedged) / 33.33% Barclays Global High Yield (hedged) Index return, net of fees, to be measured over an investment cycle of three-to-five years.

9.3 Active U.S. Bank Loans Guidelines

Portfolio Component Definition

Manager(s) will manage an active portfolio ("Portfolio") for the Plan that will provide participation in the higher return and higher volatility segments of the fixed income market. Given this orientation, the goal of the Portfolio is to provide superior performance versus the Credit Suisse Leveraged Loan Index over a complete investment cycle of three-to-five years.

Portfolio Guidelines

1. Fixed-rate instruments shall be limited to 20% of a single manager portfolio.

2. Non-benchmark markets holdings (excluding cash) shall be limited to 40% of a single manager portfolio. Benchmark markets are based on currency denomination and security type (e.g., USD corporate industrial loan, USD corporate utility loan). Security type is based on Credit Suisse Leveraged Loan Index classifications and instrument (e.g., bond versus loan).

3. No more than 5% of the lesser of cost or market value of any single manager portfolio will be invested in any one issuer.

4. No more than 20% of the lesser of cost or market value of a single manager portfolio will be invested in any one industry as defined by the Credit Suisse Leveraged Loan Index.

5. Managers are expected to have performed thorough due diligence on each security purchased (which may include, but is not limited to, the analysis of company audited financial statements in the case of corporate holdings, relevant government reports and records, etc.), and such due diligence must be available for each investment in case of a Plan audit.

6. A portfolio shall not use leverage nor purchase Collateralized Loan Obligations (CLOs).

Portfolio Characteristics

1. The acceptable modified duration range of the portfolio is 0 to 2 years.

2. It is an objective of the portfolio that it will track the Credit Suisse Leveraged Loan Index closely. The annual return dispersion between the Retirement Plan account and the Health Plan account should generally be no more than 15 basis points.

Performance Objectives

On an annual basis, Manager(s) is/are expected to outperform the Credit Suisse Leveraged Loan Index return, net of fees, to be measured over a market cycle of three-to-five years.

X. Real Return Guidelines

Strategic Objective

The Real Return Class shall be managed to accomplish the following:

1. Prudently achieve long term results above inflation
2. Diversify the Plan's investments
3. Hedge against inflation risks

Performance Objective and Benchmark

The Real Return Class shall have a benchmark index of the Consumer Price Index (CPI) + 3%. The performance objective is to outperform the benchmark, net of all fees, over a rolling five-year period.

Investment Approaches and Parameters

Prospective Real Return Class segment allocation ranges are listed in the table below. These segments may change, depending on Board preferences and tolerance for risk. In addition, several real return opportunities may present themselves over time that are not necessarily easily categorized into a specific asset class segment. These guidelines should reflect a reasonable level of flexibility to allow the Board to consider such opportunities. The segment allocation ranges are expressed as a percentage of the market value of the Plan Total portfolio.

Preliminary Segment Allocation Ranges*

Segment	Range
GILS	2.0%-4.0%
Commodities	1.0%-2.0%
Timber	0.0%-1.0%

*As a percentage of the total Plan Portfolio

Specific allocation targets are avoided to allow for flexibility in designing and implementing a *risk/objective-oriented* (not asset-based) strategic class. However, one near-term objective of the Real Return Class portfolio is to maintain core holding positions in GILS, Commodities, and Timber.

1. **GILS Program**

   Strategic Objective

   The Program shall be managed to accomplish the following:

   A. Meet the objectives for the broader Real Return Class.

   B. Hedge against inflation risks.

Performance Objective and Benchmark

The GILS Program will utilize the Hedged Barclays World Government Inflation Linked Index.

Investment Parameters

Derivatives with risk and return characteristics substantially similar to bonds or bond indices included in the Program benchmark are permitted. Any use of derivatives shall be in compliance with the Plan's Investment Policy Fixed Income Program Policy.

Interest Rate Risk is the price volatility produced by changes in the overall level of interest rates as measured by option-adjusted duration. Duration shall be maintained at + or – one year of the benchmark duration.

Currency Risk is the risk of having different weights in currency than the index. The hedged benchmark effectively eliminates currency risk. Managers will be allowed to take currency risk against the hedged benchmark as a form of active management.

Restrictions and Prohibitions

A. Except for government issuers, investments in a single issuer shall not exceed 5% of the Inflation Linked Bond Portfolio during the holding period for such an investment. For High Quality LIBOR and STIF, no single issuer limit exists.

B. Non-investment grade securities are not to exceed 5% of the total portfolio.

Local-Currency Debt of National Governments and All Debt of Corporation and Subnational governments (i.e. Provincial, State and Municipal)

A. Both the issuer and issuer's national government (if the issuer is not the national government) must be rated investment grade, at least BBB- by S&P or Fitch, and Baa3 by Moody's. Even in the case of local-currency debt, this requirement must be satisfied by long-term foreign currency ratings instead of local currency ratings, which are generally higher because a country can easily print more of its own currency to meet its local debt obligations. This unconventional, very conservative application of the rating requirement will give extra protection against the special foreign-exchange valuation and retrieval risks of local currency.

B. The country must be part of the Barclays Global Aggregate Index, a widely followed index which includes only those local markets that are fairly liquid and fairly well-developed.

C. The country's currency must be fully convertible in the spot market for foreign investors, so that Managers may retrieve Plan funds without limit or obstruction.

Global Debt Issued by National Governments

Global bond issued by national governments must have a credit rating of BB- or higher from S&P or Fitch and Ba3 or higher from Moody's.

2. **Commodities Program**

The Commodities Program will operate under the policies and guidelines set forth in Section 10.2.

3. **Timber Program**

The Timber Program will operate under the policies and guidelines set forth in Section 10.3.

10.1 Global Inflation Linked Securities Guidelines

The Plan has appointed Manager(s) as Active GILS Manager(s) to manage a portion of the Plan's assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the Retirement Board.

Portfolio Component Definition

Manager(s) will manage an active portfolio ("Portfolio") for the Plan that will provide participation in the broad Global Inflation Linked market. Given this orientation, the goal of the Portfolio is to provide superior performance versus the Hedged Barclays World Government Inflation Linked Index over a complete investment cycle. The Portfolio will be measured in USD.

Portfolio Guidelines

Eligible Securities

Any of the following fixed income securities, individually or in commingled vehicles, subject to credit, diversification and marketability guidelines below, may be held outright and under resale agreement.

1. Inflation Indexed and Non-Inflation Indexed obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies;

2. Inflation Indexed and Non-Inflation-Indexed obligations of U.S. and non-U.S. corporations such as debentures, mortgage bonds, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations;

3. Inflation Indexed and Non-Inflation Indexed obligations denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies), as well as foreign currency exchange-related securities, warrants, and forward contracts;

4. Inflation Indexed and Non-Inflation Indexed obligations issued or guaranteed by U.S. local, city and state governments and agencies; and

5. Inflation Indexed securities defined under Rule 144A;

6. Foreign exchange contracts; and

7. Interest rate futures and options on Government securities issued by countries contained within the benchmark traded on an exchange or actively traded in the Over-the-Counter market.

Duration Exposure

The modified duration of portfolio security holdings is expected to range within +/- 30% of the benchmark.

Futures and Options

No more than 5% of the portfolio will be invested in original futures margin and option premiums, exclusive of any in-the-money portion of the premiums. Short (sold) options positions and all Futures positions will be hedged with cash, cash equivalents, current portfolio security holdings, or other options or futures positions.

Derivatives positions will not be used to leverage the portfolio and are limited only to hedging and not for speculative purposes.

Credit Quality

In all categories, emphasis will be on high-quality securities and the weighted average of portfolio holdings will not fall below AA- or equivalent. Holdings are subject to the following limitations:

1. Rated Securities: 95% of the portfolio will be of "investment grade", i.e. rated as high as or higher than the following standards or their equivalent by two or more nationally recognized statistical rating organizations (NRSRO):

   Standard & Poor's BBB-, or A-2, or

   Moody's Baa3, or Prime-2, or

   Fitch BBB-, or F-2

2. Other Unrated Securities: Securities not covered by the standards in (1) above will normally be, in the judgment of the Portfolio, at least equal in credit quality to the criteria implied in those standards. Obligations in unrated securities are limited to 10% of the total portfolio.

3. Downgraded Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at the Portfolio's, discretion. The Plan should be notified of these securities.

4. Securities inside 270 Days: For securities with legal final maturities of 270 days or less, the Portfolio may use the underlying credit's short term ratings as proxy for establishing the minimum credit requirement.

Diversification

1. Maturity: Inflation Indexed and Non-Inflation Indexed securities covering the full range of available maturities are acceptable.

2. Sector: subject to the following limitations:

   a. Up to 25% of the portfolio may be invested in non-inflation indexed securities.

3. Issuer: Holdings are subject to the following limitations:

   a. Obligations issued or guaranteed by the U.S. government, U.S. agencies or U.S. government-sponsored corporations and agencies are eligible without limit.

   b. Obligations of other national governments are limited to 50% per issuer.

c. Obligations of other issuers are subject to a 5% per issuer limit excluding investments in commingled vehicles.

4. Cash: The cash equivalent portion should not normally exceed 10% of the portfolio.

5. Currency: Both long and short currency exposures are permitted. However, the aggregate of all active long exposures (local country bond plus currency position) will not exceed 5% of the portfolio. (For example, a 5% local bond position in a country combined with a short (-5%) position in that country's currency is fully hedged and, therefore, has 0% active long currency exposure. A 5% local bond position in a country with an "additional" 5% currency position represents a 10% active long currency exposure).

Marketability

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at minimum cost and accurate market valuation.

Performance Objectives

On an annual basis, the Portfolio is expected to outperform the Hedged Barclays World Government Inflation Linked Index return, net of fees, to be measured over a market cycle of three-to-five years.

10.2 Commodities Guidelines

Purpose

This document sets forth the investment policy ("the Policy") for the Plan's Commodities Program ("the Program"). This Policy is designed to ensure that investment managers, consultants, and the Plan's Board/Investment Staff take prudent and careful action while investing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling the investment risks and returns associated with this segment of the portfolio.

The Program is designed to meet the Plan's long-term actuarial target through the identification and participation in active Commodities opportunities that are expected to generate attractive real rates of return while also providing diversification benefits.

Strategic Objective

Broadening the opportunity set of the Plan's Real Return for achieving consistent investment returns not available in traditional public markets investments is the strategic objective of investing in Commodities. The Program is expected to develop a diversified portfolio of Commodities capable of achieving targeted investment returns on a risk-adjusted basis that are complementary to Real Return class goals. Commodity investment returns are expected to provide diversification and inflation protection over equity markets over extended time periods. Total rates of return from Commodities investments are expected to enhance the risk-adjusted return of the Real Return class. The Program is expected to emphasize exposures to different geographic segments as well as different types of Commodity investments. A secondary benefit of including Commodities in the real return investment allocation is that they capture participation in unexpected inflation and major shifts in headline inflation.

Commodity investments shall be selected solely in the interest of the Plan's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following (within the Real Return class):

1. Enhance the Plan's long-term risk-adjusted total return.

2. Provide added diversification to the Plan's overall investment program.

3. Produce Inflation hedging characteristics over extended periods.

4. Provide incremental diversification versus other Real Return segments.

Performance Objective

The long-term (3-5 years) expected performance objective of the Program, net of all fees, shall be greater than the annualized rate of return of Bloomberg Commodity index. The Program is expected to maintain a low correlation with the other segments of the Real Return class.

Investment Approaches and Parameters

A. General Approach

   Investments in the Program shall be selected to achieve stated performance objectives. In addition, Program investments are expected to be complementary to other segments in the Real Return portfolio.

B. Investment Selection

A Commodity investment consists of using derivative (future) contracts and cash collateral as margin. An allocation to Commodities shall be diversified by geography, Commodity type (Energy, Agriculture, Livestock, Precious Metals, and Industrial Metals), through a diversified investment vehicle.

Commodities shall be selected to enhance the Program's ability to achieve the overall investment objective.

1. Such strategies that might be implemented through a Commodities portfolio could include, but are not limited to:

    a. Crude oil
    b. Bent Crude Oil
    c. Heating Oil
    d. Natural Gas
    e. Unleaded Gas
    f. Live Cattle
    g. Lean Hogs
    h. Feeder Cattle
    i. Corn
    j. Soybeans
    k. Wheat
    l. Soybean Oil
    m. Coffee
    n. Cocoa
    o. Sugar
    p. Cotton
    q. Aluminum
    r. Zinc
    s. Nickel
    t. Lead
    u. Copper
    v. Gold
    w. Silver
    x. Platinum

2. Selection guidelines for prospective Commodity managers shall be developed and maintained. These criteria shall be subject to review by:

    a. The Board,
    b. Investment Staff and Consultant

To ensure conformity to the return and risk expectations of the Program, the selection guidelines may include, but are not limited to the following:

Minimum requirements with respect to the following:

c. General Partner Investment Experience

d. Basic Investment Vehicle Terms

e. Investment Goals and Objectives

f. Performance Criteria

g. Other relevant parameters that may apply

C. Management of Investments

The Program shall be continually monitored and refined as needed to obtain the most effective mix of investments.

Investments shall be continually reviewed in the following areas:

1. Fit with the Program Goals and Objectives
2. Targeted performance according to stated objectives
3. Targeted risk according to stated objectives
4. Diversity of underlying Commodity investments
5. Strategy diversification
6. Growth of assets
7. Organizational changes

D. Quality Control Processes

The Program shall employ a quality control process, which includes both the Investment Staff and Consultant to monitor Program efficiency, track investment performance, and control risk.

1. Monitoring Portfolio Performance: Actual net returns and risk will be compared to benchmark(s) as appropriate, and to the expected return for the Commodities investment.
2. Risk Control: Program standards are maintained through the following processes –

   a. Assessing the level of diversification in the portfolio on a regular basis, including the level of diversification across types of Commodities invested (i.e. Energy, Agriculture, Livestock, Precious Metals, and Industrial Metals), geographic location, and across other factors as appropriate.

   b. Documenting due diligence activities.

10.3 Timber Guidelines

Purpose

This document sets forth the investment policy ("the Policy") for the Plan's Timber Program ("the Program"). This Policy is designed to ensure that investment managers, consultants, and the Plan's Board/Investment Staff take prudent and careful action while investing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling the investment risks and returns associated with this segment of the portfolio.

The Program is designed to meet the Plan's long-term actuarial target through the identification and participation in Timber opportunities that are expected to generate attractive real rates of return while also providing diversification benefits.

Strategic Objective

Broadening the opportunity set of the Plan's Real Return for achieving consistent investment returns not available in traditional public markets investments is the strategic objective of investing in Timber. The Program is expected to develop a diversified portfolio of Timber capable of achieving targeted investment returns on a risk-adjusted basis that are complementary to Real Return class goals. Timber investment returns are expected to exhibit lower volatility than public investments for a given level of return while also being less correlated to the major asset classes. Total rates of return from Timber investments are expected to enhance the risk-adjusted return of the Real Return class. The Program is expected to emphasize exposures to different geographic segments as well as different types of Timber material. A secondary benefit of including Timber in the real return investment allocation is that they are long-term investments with inflation hedging benefits.

Timber investments shall be selected solely in the interest of the Plan's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following (within the Real Return class):

1. Enhance the Plan's long-term risk-adjusted total return.

2. Provide added diversification to the Plan's overall investment program.

3. Produce Inflation Protected income/returns over extended periods.

4. Maintain a low correlation with traditional public markets.

Performance Objective

The long-term (7-10 years) expected performance objective of the Program, net of all fees, shall be greater than the annualized rate of return of NCREIF Timberland Index. The Program is expected to maintain a low correlation with the other segments of the Real Return class.

Investment Approaches and Parameters

A. General Approach

   Investments in the Program shall be selected to achieve stated performance objectives. In addition, Program investments are expected to be complementary to other segments in the Real Return portfolio.

1. The Program shall initially utilize Timber Private Partnerships to generate the attractive risk-to-reward characteristics provided by these specialized and unique investment strategies.

2. The Program shall invest in funds through partnerships or other formation structures, e.g., limited liability companies (LLCs), where the general partner(s) or fund manager(s) have expertise in the specified mandates and in related areas material to the success of each investment type.

3. The inclusion of specified terms in Timber shall protect the interests of the Plan, and shall address at a minimum the following issues:

   a. Alignment of Interests: Vehicle terms shall be reviewed to assess the alignment of the General Partner's interest with the Plan. The management fee, performance fee, performance objective, lock-up period, liquidity, General Partner investment, and other relevant terms to protect the Plan in the event of adverse performance results, shall be examined.

   b. Leverage: Investments should only be made in investment vehicles (specific to Timber) which provide limited liability. The limited liability structure protects the Program from losing more than its invested capital. Leverage, as measured by the Loan-to-Value ratio (LTV) should be no greater than 30%.

B. Investment Selection

A Timber investment consists of productive land plus growing trees, and it can be in the form of natural forests or plantations. An allocation to Timber shall be diversified by geography, tree type (conifer/softwood vs. non-conifer/hardwood), and end-use (pulp, chip-n-saw, mature saw timber, and poles) through a diversified investment vehicle.

1. Selection guidelines for prospective Timber managers shall be developed and maintained. These criteria shall be subject to review by:

   a. The Board,

   b. Investment Staff and Real Estate Consultant

   To ensure conformity to the return and risk expectations of the Program, the selection guidelines may include, but are not limited to the following:

   Minimum requirements with respect to the following:

   a. General Partner Investment Experience

   b. Basic Investment Vehicle Terms

   c. Investment Goals and Objectives

   d. Performance Criteria

   e. Other relevant parameters that may apply

C. Management of Investments

The Program shall be continually monitored and refined as needed to obtain the most effective mix of investments.

Investments shall be continually reviewed in the following areas:

1. Fit with the Program Goals and Objectives

2. Targeted performance according to stated objectives

3. Targeted risk according to stated objectives

4. Diversity of underlying Timber investments

5. Strategy diversification

6. Growth of assets

7. Organizational changes

D. Quality Control Processes

The Program shall employ a quality control process, which includes both the Investment Staff and Real Estate Consultant to monitor Program efficiency, track investment performance, and control risk.

1. Monitoring Portfolio Performance: Actual net returns and risk will be compared to benchmark(s) as appropriate, and to the expected return for the Timber investment.

2. Risk Control: Program standards are maintained through the following processes –

    a. Assessing the level of diversification in the portfolio on a regular basis, including the level of diversification across types of Timber invested (i.e. Hardwood and Softwood), geographic location, and across other factors as appropriate.

    b. Documenting due diligence activities.

10.4 Guidelines for Investment Evaluation

Organization: Firms considered for this Program are expected to include established, long-tenured firms in addition to potentially including recently formed organizations that may have relatively short track records. The principals shall be required to dedicate sufficient time and effort to the investment opportunity. The organization must have sufficient investment professionals and support staff to implement the proposed strategy. Alignment of interests (including ownership, compensation, general partner investment in fund/firm, etc.) will be important factors in the proposed investment opportunities.

Investment Experience: The Program shall consider only Managers whose professionals have significant experience managing institutional assets. The principals shall demonstrate relevant experience and that they are specifically qualified to work in the market in which they propose to work. The Program shall not consider vehicles with less than three years of performance track record managing funds for institutional level investors. The experience of the investment professionals at the firm managing the proposed investment vehicle will be reviewed to ensure that experienced professionals are overseeing the investment.

Performance: Proposed investment opportunities must have outperformed the Program return objectives, net of all fees, over long-term historical periods. The investment vehicle must also exhibit attractive risk characteristics having generated a Sharpe Ratio near 1.0 (or above) during such periods.

Investment Strategy: The investment strategy of potential investment opportunities shall be assessed for appropriateness given the Program's goals and objectives including risk tolerance and objectives. The proposed investment strategy and approach to portfolio construction shall provide reasonable assurance that the investment opportunity can produce the required return.

Fund size: The Plan shall not represent more than 20% of a firm's assets.

Terms: At a minimum, investment terms are expected to be "in-line" with industry norms. In particular, the management fee, performance fee, utilization of a high water mark, and liquidity terms shall be examined to ensure appropriateness.

XI. Hedge Fund Guidelines

Purpose

This document sets forth the investment policy ("the Policy") for the Plan's Hedge Fund Program ("the Program"). This Policy is designed to ensure that investment managers, consultants, and the Plan's Board/Investment Staff take prudent and careful action while investing for the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling the investment risks and returns associated with this segment of the portfolio.

The Program is designed to meet the Plan's long-term actuarial target through the identification and participation in Hedge Fund opportunities that are expected to generate attractive absolute rates of return while also providing diversification benefits.

Strategic Objective

Broadening the opportunity set of the Plan's investment portfolio for achieving consistent investment returns not available in traditional public markets investments is the strategic objective of investing in Hedge Funds. The Program is expected to develop a diversified portfolio of Hedge Funds capable of achieving targeted investment returns on a risk-adjusted basis that are complementary to overall Portfolio goals. Hedge Fund investment returns are expected to exhibit lower volatility than public investments for a given level of return while also being less correlated to the major asset classes. Total rates of return from Hedge Fund investments are expected to be absolute return oriented while also providing preservation of capital. The Program is expected to emphasize exposures to more conservative (lower volatility and less market directionality) investment strategies. A secondary benefit of including Hedge Funds in the alternative investment allocation is that they are commonly more liquid vehicles than private market investments, and therefore can also be utilized as a future funding source for private market commitments.

Hedge Fund investments shall be selected solely in the interest of the Plan's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Enhance the Plan's long-term risk-adjusted total return.

2. Provide added diversification to the Plan's overall investment program.

3. Maintain a low correlation with the public global equity markets.

Performance Objective

Given the absolute return/capital preservation orientation of Hedge Fund investments and the Board's desire to emphasize more conservative, less directional segments of the market, the long-term (3-5 years) expected performance objective of the Program, net of all fees, shall be the annualized rate of return of T-Bills plus 300 basis points. Use of the T-Bills reflects the absolute return nature of hedge fund investments while the 300 basis point premium accounts for higher degrees of risk undertaken. Over the long term (3-5 years), program annualized volatility is expected to be less than one third that of global public equity markets (as represented by the MSCI ACWI). The Program is expected to exhibit correlation to global public equity markets of less than or equal to 0.50 over the same long-term time period.

Investment Approaches and Parameters

A. General Approach

Investments in the Program shall be selected to achieve stated performance objectives. In addition, Program investments are expected to be complementary to the private equity investments in the alternative investment allocation and to the traditional investment vehicles in the Total Portfolio.

1. The Program shall initially utilize Hedge Fund of Funds to generate the attractive risk-to-reward characteristics provided by these specialized and unique investment strategies. Other absolute return strategies/structures may be considered at a future date, including multi-strategy managers, tactical asset allocation managers, and other single strategy hedge fund managers as the Program evolves and matures.

2. The Program shall invest in funds through partnerships or other formation structures, e.g., limited liability companies (LLCs), where the general partner(s) or fund manager(s) have expertise in the specified mandates and in related areas material to the success of each investment strategy.

3. The inclusion of specified terms in Hedge Funds shall protect the interests of the Plan, and shall address at a minimum the following issues:

   a. Alignment of Interests: Vehicle terms shall be reviewed to assess the alignment of the General Partner's interest with the Plan. The management fee, performance fee, performance objective, lock-up period, liquidity, General Partner investment, and other relevant terms to protect the Plan in the event of adverse performance results, shall be examined.

   b. Leverage: It is recognized that hedge fund strategies may expose the Plan's assets to leverage, meaning that an underlying partnership's market exposure may exceed the market value-adjusted capital commitment by the amount of borrowed capital. Therefore, investments should only be made in investment vehicles (specific to Hedge Funds) which provide limited liability. The limited liability structure protects the Program from losing more than its invested capital.

B. Investment Selection

Hedge Fund of Funds shall be selected to enhance the Program's ability to achieve the overall investment objective. Hedge Fund of Funds invests in a portfolio of individual hedge funds applying different investment strategies.

1. Such strategies that might be implemented through a Hedge Fund of Funds could include, but are not limited to:

   a. Convertible Arbitrage
   b. Distressed Securities
   c. Fixed Income Arbitrage
   d. Long/Short Credit
   e. Long/Short Equity
   f. Market Neutral
   g. Merger Arbitrage
   h. Multiple Arbitrage
   i. Statistical Arbitrage
   j. Commodity Trading Advisors
   k. Global Macro

l. Emerging Markets

Selected Hedge Fund of Funds are expected to emphasize less volatile investment strategies given the Program's conservative orientation.

2. The Hedge Fund of Funds manager will employ hedge funds that enter into long and/or short positions using, but not limited to, any of the following instruments:

   a. Equities:

      i. Common or preferred corporate stock traded on principal U.S. exchanges

      ii. Convertible corporate bonds, notes, or debentures

      iii. Global Depository Receipts (GDRs) and American Depository Receipts (ADRs)

   b. Fixed Income:

      i. Marketable investment grade and non-investment grade debt securities

      ii. Marketable non-U.S. debt securities

   c. Derivatives:

      i. Exchange traded equity, fixed income and currency futures contracts

      ii. Index futures contracts

      iii. Over-the-counter ("OTC") option contracts

      iv. OTC forward foreign exchange contracts

      v. Swaps

      vi. Cash and money market instruments

3. Selection guidelines for prospective Hedge Fund of Funds shall be developed and maintained (see sections 11.2 and 11.3). These criteria shall be subject to review by:

   a. The Board,

   b. Investment Staff and Consultant

   To ensure conformity to the return and risk expectations of the Program, the selection guidelines may include, but are not limited to the following:

   Minimum requirements with respect to the following:

   a. General Partner Investment Experience

   b. Basic Investment Vehicle Terms

c. Investment Goals and Objectives

d. Performance Criteria

e. Other relevant parameters that may apply

C. Management of Investments

The Program shall be continually monitored and refined as needed to obtain the most effective mix of investments. The Program shall initially invest in Hedge Fund of Funds investments.

Investments shall be continually reviewed in the following areas:

1. Fit with the Program Goals and Objectives

2. Targeted performance according to stated objectives

3. Targeted risk according to stated objectives

4. Diversity of underlying hedge funds

5. Strategy diversification

6. Growth of assets

7. Organizational changes

D. Quality Control Processes

The Program shall employ a quality control process, which includes both the Investment Staff and Consultant to monitor Program efficiency, track investment performance, and control risk.

1. Process Monitoring: Investment Staff and Consultant shall monitor transaction processing to insure timely decision-making and an effective process.

2. Monitoring Portfolio Performance: Actual net returns and risk will be compared to benchmark(s) as appropriate, and to the expected return for the Hedge Fund of Funds investment.

3. Risk Control: Program standards are maintained through the following processes –

   a. Assessing the level of diversification in the portfolio on a regular basis, including the level of diversification across Hedge Fund of Funds managers, investment strategy, underlying hedge fund manager, and across other factors as appropriate.

   b. Documenting due diligence activities.

E. Specific Risk Parameters

The Program may be exposed to specific risk parameters that are associated with investing in hedge funds, including, but not limited to:

1. Operating and Business Risk: Certain hedge funds entail above average operating and business risk.

2. Country Risk: Political, economic, and currency risks associated with investing outside of the U.S.

3. Valuation Risk: Some underlying holdings may be illiquid and not marked to market very frequently. Therefore, there is risk of lagged valuations as a holding is priced less often.

4. Financial Leverage Risk: Many hedge funds employ high amounts of leverage to underlying portfolio investments increasing the risk of loss of capital.

5. Disclosure Risk: Hedge funds are commonly reluctant to provide transparency regarding their portfolio positions limiting an investor's ability to aggregate exposures.

6. Regulation Risk: Hedge funds and their managers are unencumbered by any government oversight or restrictions. However, regulators in many jurisdictions have begun to regulate hedge funds to varying degrees.

F. Guidelines for Evaluating Program Candidates

Proposed investment opportunities shall be evaluated relative to their fit with the Program's Investment Policy. Section 11.2 contains minimum criteria to be utilized in the screening of candidates.

Benchmark

The primary performance benchmark for the Program shall be the annualized rate of return of T-Bills plus 300 basis points. The secondary performance benchmark shall be the HFRI FoF Conservative Index. It may be useful to view the primary benchmark in the context of longer term annualized performance, while the secondary benchmark shall be used to gauge shorter term relative performance. As appropriate, individual managers may be benchmarked against specific customized benchmarks and hedge fund indices may be utilized for relative market comparisons.

General

Reporting

1. Reports received from Hedge Fund of Funds managers

   Investment Staff and Consultant shall require periodic reports (i.e. monthly and/or quarterly) from Hedge Fund of Funds managers to facilitate monitoring.

2. Monitoring Investments

   Consultant, assisted by Investment Staff, shall monitor individual Hedge Fund of Funds managers and the Program as a whole. Monitoring includes performance measurement addressed below and may include other unique aspects to Hedge Fund of Funds, such as:

A. number of underlying hedge fund managers

B. allocations across investment strategies

C. asset growth at both the firm level and the fund level

D. personnel changes

3. Performance

The Plan shall assess the net performance of Hedge Fund of Funds investments relative to the following areas:

A. Established objectives at both the Program level and Hedge Fund of Funds manager level (if appropriate)

   i. Monthly, quarterly, annual, since inception, etc.

B. Risk undertaken (i.e. volatility)

C. Correlation with public equity markets

4. Board Reports

Quarterly reports shall be provided to the Board. These reports will include, but shall not be limited to, performance reviews of individual Hedge Fund of Funds managers (net of all fees) and aggregate Program results.

11.1 Custom Fund of Hedge Fund Guidelines

The Plan has appointed Manager(s) to manage a portion of the Plan's assets. These assets will be managed in conformity with the objectives and guidelines delineated below and in accordance with a formal contract with the Retirement Board.

Portfolio Component Definition
Manager(s) will manage a portfolio for the Plan that will provide participation in a portion of the Hedge Fund universe. Given this orientation, the goal of the Portfolio is to provide superior performance with limited principal loss versus the 90-day T-Bill+3% benchmark over a complete investment cycle.

Portfolio Guidelines

A. Approach (The Portfolio)

1. The Portfolio shall maintain medium to low-volatility of approximately 1/3 of global equities, as measured by annualized standard deviation, over a full market cycle (3-5 years).

2. The Portfolio shall maintain a correlation of 0.5 or less to the broad equity markets (as defined by the MSCI ACWI)

3. The Portfolio shall maintain liquidity such that full redemption of client assets can be received in less than 12 months subsequent to the expiry of any initial investor lock-ups.

4. The Portfolio shall remain fully invested with no additional required capital and no leverage at the portfolio level.

5. With respect to underlying manager concentration, the portfolio is not allowed to have exposure to underlying portfolios at more than 10% at cost and 14% at market value.

6. Underlying investment in new or emerging managers is limited to 5% at cost and 7% at market value. Emerging or new hedge fund managers are defined as those with assets of $300 million or less and/or track records of three years or less.

7. Underlying Hedge Fund Investments may include exposure to leverage or short selling of securities or both. Aggregated leverage from borrowing is not permitted to exceed 2.0x capital on a weighted average basis. Aggregated notional exposure shall not exceed 350%.

8. The negotiation of terms in Hedge Funds shall protect the interests of the Plan, and shall address at a minimum the following issues:

   a. Alignment of Interests: Vehicle terms including fees shall be negotiated to ensure the alignment of interests with those of the Plan. The management fee, carried interest, performance objective, return of capital, lock-up period, clawbacks, and other relevant terms shall protect the Plan in the event of adverse performance results, while ensuring that the limited liability status is maintained. As appropriate, a return of committed capital shall be negotiated.

b. Leverage: It is recognized that the underlying Hedge Funds may expose the Plan's assets to leverage, meaning that a partnership's market exposure may exceed the market value-adjusted capital commitment by the amount of borrowed capital. The partnership or LLC agreements shall detail the amount of leverage and monitor leverage on a case-by-case basis

c. Reporting Requirements: To appropriately account for fees, individual expenses, invested capital, and any other items affecting the investment, monthly, quarterly and yearly reporting shall be conducted, at the Plan's discretion, to keep the client materially informed. An audit of the portfolio shall be undertaken annually.

d. The Plan's Investment Staff and Consultant shall continually review the efficacy of Hedge Fund investment vehicles. Formal presentation to the Plan's Board shall be required at minimum annually.

B. Investment Selection

1. Individual Hedge Funds will be selected if they enhance the overall investment program and may include investments across a wide array of asset classes and strategies.

   Such strategies that might be implemented through the Portfolio could include, but are not limited to:

   a. Convertible Arbitrage
   b. Distressed Securities
   c. Fixed Income Arbitrage
   d. Long/Short Credit
   e. Long/Short Equity
   f. Market Neutral
   g. Merger Arbitrage
   h. Multiple Arbitrage
   i. Statistical Arbitrage
   j. Emerging Markets

2. The Investment Staff, with the assistance of the Consultant, shall develop and maintain selection guidelines for Hedge Fund Investment Advisors to include the following:

   a. Minimum requirements with respect to the following:

      (1) General Partner Investment Experience
      (2) SEC registration as an investment Advisor
      (3) Basic Investment Vehicle Terms, including the management of at least $500 Million
      (4) Investment Goals and Objectives
      (5) Degree of Leverage
      (6) Performance Criteria
      (7) Due Diligence Process
      (8) Legal Constraints or Requirements, including registration of the hedge fund investment advisor under the Investment Company Act of 1940.

(9) Reporting Requirements, including the reporting of holdings and transactions to a third party risk aggregator, reviewable by Investment Staff and the consultant.
(10) Quality control processes including, but not limited to, investment monitoring and risk control
(11) Other relevant parameters that may apply

Performance Objectives

The Portfolio is expected to outperform the 90-day T-Bills+3% Index, net of fees, to be measured over a market cycle of three-to-five years. For short term performance evaluation, the Portfolio will be measured, net of fees and expenses, against the HFRI FoF Conservative Index.

11.2 Guidelines for Investment Evaluation

Organization: Firms considered for this Program are expected to include established, long-tenured firms in addition to potentially including recently formed organizations that may have relatively short track records. The principals shall be required to dedicate sufficient time and effort to the investment opportunity. The organization must have sufficient investment professionals and support staff to implement the proposed strategy. Alignment of interests (including ownership, compensation, general partner investment in fund/firm, etc.) will be important factors in the proposed investment opportunities.

Investment Experience: The Program shall consider only Managers whose professionals have significant experience managing institutional assets. The principals shall demonstrate relevant experience and that they are specifically qualified to work in the market in which they propose to work. The Program shall not consider vehicles with less than three years of performance track record managing funds for institutional level investors. The experience of the investment professionals at the firm managing the proposed investment vehicle will be reviewed to ensure that experienced professionals are overseeing the investment.

Performance: Proposed investment opportunities must have outperformed the Program return objectives, net of all fees, over long-term historical periods. The investment vehicle must also exhibit attractive risk characteristics having generated a Sharpe Ratio near 1.0 (or above) during such periods.

Investment Strategy: The investment strategy of potential investment opportunities shall be assessed for appropriateness given the Program's goals and objectives including risk tolerance and objectives. The proposed investment strategy and approach to portfolio construction shall provide reasonable assurance that the investment opportunity can produce the required return.

Fund size: The Plan shall not represent more than 20% of a firm's assets.

Terms: At a minimum, investment terms are expected to be "in-line" with industry norms. In particular, the management fee, performance fee, utilization of a high water mark, and liquidity terms shall be examined to ensure appropriateness.

XII. Real Estate Investment Policy

Purpose

This document sets forth the investment policy ("the Policy") for the Plan's Real Estate Program ("the Program"). This Policy is designed to ensure that investment managers, consultants, and Board/Investment Staff take prudent and careful action while investing in the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling the investment risks and returns associated with this segment of the portfolio.

For purposes of this Policy, real estate shall be defined to include investments that are private or public, equity or debt positions in real property. Investments may be leveraged or unleveraged. As further set forth in this policy, the Plan will invest primarily in discretionary commingled funds through investment vehicles (e.g., limited liability companies, real estate investment trusts, and limited partnerships) owned with other suitable institutional investors (e.g., pension funds, endowments, foundations and sovereign funds).

The investment and management of the Program shall be accomplished in a manner consistent with the "prudent man's" standard of fiduciary care. This level of care requires that all the Plan's fiduciaries act reasonably to accomplish the stated investment objectives and to safeguard the Program on behalf of the Plan's participants and their beneficiaries. The implementation of this Real Estate Policy, including the selection of investment managers, shall be completed in a manner that enhances the Program's diversification, thereby reducing risk by limiting exposure to any one investment, manager, real estate property type, geographic region, or other defined risk factor.

The Program is designed to meet the Plan's long-term actuarial target through the identification and participation in real estate opportunities that are expected to generate strong rates of return while also providing diversification benefits. The current allocation to real estate is 8% of the total portfolio.

Strategic Objective

The strategic objective of the Program is to develop a diversified real estate portfolio capable of achieving investment returns commensurate with Program targets.

The portfolio will be invested in a diversified pool of real estate investments designed to capture the return and diversification (relative to the Plan's equity, fixed income and other "alternative" investments) benefits of the real estate asset class. Real estate investments have a low correlation to other investment classes and therefore can contribute to reducing the risk and enhancing the returns of the total portfolio, as well as providing portfolio diversification.

A diversified portfolio of attractive real estate opportunities is expected to be created by implementing a strategic "top down" assessment of attractive segments of the market for investment combined with a "bottom up" approach to manager identification. Consultant, with assistance from Investment Staff, shall proactively seek out the most attractive investment opportunities given current market conditions, while maintaining appropriate diversification. Portfolio weightings shall be a function of the specific risk and return profile of an investment opportunity and the Program's overall needs.

Real estate investments shall be considered solely in the interest of the Plan's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. **Attractive Risk-Adjusted Returns**. To obtain superior risk-adjusted returns by taking advantage of the inefficiencies of real estate as compared to other asset classes. Active management, value creation and opportunistic strategies, as well as the prudent use of third-party debt, are approved methods for generating expected returns. The benchmarks for the Program will be 1) the NCREIF Property Index plus 50 basis points; and 2) custom benchmarks weighted quarterly on a risk/return basis based on the portfolio allocation.

2. **Increased Program Diversification/Reduced Program Risk**. To use real estate to enhance overall Program diversification and, in turn, reduce overall Program risk, given the historically low to negative return correlations that exist between real estate and other asset classes.

3. **International Opportunities**. To access international real estate markets through public and private, and equity and debt real estate investments. By so doing, the Program will obtain exposure to diverse economies, populations and currencies.

4. **Significant Current Cash Yields**. To invest in real estate assets, which will generate a significant cash return based primarily on current rental income. In general, as a portion of total investment return, higher levels of current income are expected from core and value than opportunistic investments; in contrast, higher levels of appreciation are expected from opportunistic than value and core investments.

5. **Inflation-Hedge**. To make investments primarily in real estate equity investments that are likely to provide a reasonable hedge against price inflation.

6. **Preservation of Principal**. To achieve meaningful risk-adjusted returns without undue exposure to loss of investment principal.

7. **Liability Hedge**. To provide a hedge against changes in the Plan's long-term liabilities.

Responsibilities and Delegations

The Plan will utilize the services of an In-Kind Distribution Manager to liquidate any in-kind distributions received from its private market managers.

Section 2.3 outlines specific responsibilities and tasks to be performed by the Board, Investment Staff, and Consultant(s).

Performance Objective

The real estate portfolio shall be benchmarked, on a net of fees basis, against the total rate of return of the National Council of Real Estate Investment Fiduciaries Real Property Index ("NCREIF Index") plus 50 basis points over a rolling 5-year period as its benchmark. With respect to public real estate securities, the Consultant, the Investment Staff, and the Board shall use the FTSE EPRA NAREIT Global Developed Index ("NAREIT"). In the event that the Program includes both private and public real estate investments, the benchmark shall be a weighted benchmark based on the Program's exposure to public and private real estate investments, weighted quarterly.

Unlike public security asset classes, real estate asset class will take some time to invest. To reflect this properly in the Plan's policy benchmark, the NCREIF Index will be phased in over time. Over the course of time, as the real estate allocation is being phased into, the total Plan Policy Benchmark will need to be adjusted to reflect the real estate component as a percentage of total Plan assets. Once the Program's full allocation of 8% is achieved, real estate will maintain a 8% weighting to the Plan's target blended benchmark.

Investment Approaches and Parameters

The Board shall review the Program annually via the Investment Policy and Annual Strategic Plan prepared by Consultant, with assistance from Investment Staff. The Annual Strategic Plan shall be based upon broad economic structural analyses, market conditions, and a review of the existing portfolio. The Annual Strategic Plan shall detail tactical priorities, strategy enhancements, and other objectives.

A. General Approach

A broad range of real estate investments shall be considered for the Program through the implementation of a disciplined investment strategy. The Plan's investments may consist of a number of different investment strategies and investment vehicles. All investments in real estate assets are expected to adhere to the standards of fiduciary obligation to the beneficiaries of the Plan, and shall be considered in the context of the relevant risk/reward factors of this asset class.

B. Program Strategy

The Program Strategy shall be revised periodically as appropriate and updated through the Annual Strategic Plan. The Program Strategy shall contain the following elements:

1. Program goals and objectives
2. Structure of the Program
3. Strategic approach to the asset class

C. Management of Real Estate Investments

The Program shall be continually refined to obtain the most effective mix of investments. Real estate investments shall be continually reviewed in the following areas:

1. Fit with the Annual Strategic Plan
2. Pace and timing of investment commitments, funding, and return of capital
3. Diversity of investment strategies (property type, geographic regions, and others as appropriate)
4. Targeted performance according to stated objectives specific to the investment

D. Quality Control Processes

The Program shall employ a quality control process, which involves Consultant, with assistance from Investment Staff. The quality control process shall include: monitoring Program efficiency, tracking investment performance, and controlling risk.

1. Process Monitoring: Monitor transaction processing to ensure timely decision-making and an effective process.

2. Portfolio Performance Monitoring: Compare actual returns to the benchmark(s) as

appropriate, and to the expected return for the investment.

3. Risk Control: Program standards are maintained through the following processes-

   a. Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment styles, property types, geographic distribution, and across other ranges as appropriate.

   b. Documenting due diligence activities.

E. Guidelines for Evaluating Proposals

Proposed real estate opportunities shall be evaluated relative to their fit with the Program's Investment Policy and Strategic Plan. Section 12.2 contains broad guidelines for initial real estate evaluation.

F. Portfolio Composition

The Program shall be divided into three segments, the Core Portfolio, the Value-Added Portfolio, and the Opportunistic Portfolio. Assignment of an investment to a particular portfolio shall be based on the investment's risk and return characteristics.

Characteristics of Core Portfolio Investments:

The Core Portfolio is expected to produce market level returns over time with a commensurate level of risk. Performance is expected to modestly outperform the composite NCREIF Property Index, on a net-of-fees basis. Income is expected to make up the majority of the total return for the Core Portfolio.

To mitigate risk, the Core Portfolio shall be well diversified by property type, geography and, to the extent feasible, by manager. Usually, investments in the Core Portfolio shall be limited to office, retail, industrial and apartment properties. The Core Portfolio may also include limited investment in "other" property types that are generally considered non-core. All investments in the Core Portfolio will be U.S. based.

Typical Core Portfolio properties shall exhibit "institutional" qualities. Generally, they are well located within their local and regional markets, of high-quality design and construction and have significant occupancy levels. Leverage may be used in the Core Portfolio on a limited basis to enhance investment returns. Leverage within the Core Portfolio will have a targeted guideline of 40% or less of the aggregate net assets. Consideration shall be given to the impact of debt financing on the risk and return characteristics of the leveraged investments as well as the total Core Portfolio.

Characteristics of Value-Added Portfolio Investments:

The Value-Added Portfolio is expected to produce above market level returns over time. Performance is expected to exceed the NCREIF Property Index, on a net-of-fees basis, by 200 basis points. While income is expected to be a part of the total return for the Value-Added Portfolio, appreciation is expected be the source for much of the total return.

The Value-Added Portfolio contains investments with expected returns in excess of investments contained within the Core Portfolio in addition to commensurately higher risk. Value-Added Portfolio investments involve efforts to increase property value such as releasing, repositioning, redevelopment, or development, as well as higher levels of debt, usually within the range of 40% to 70%. Value-Added investments may include traditional and non-traditional property types (e.g. hotels, mini-storage, senior housing, timber, etc.).

Characteristics of Opportunistic Portfolio Investments:

The Opportunistic Portfolio is expected to produce above market level returns over time. Performance is expected to exceed the NCREIF Property Index, on a net-of-fees basis, by 500 basis points or more. Opportunistic investments includes distressed assets, financial restructurings, and/or financial engineering opportunities (e.g., foreclosing on a mortgage and selling the equity interest) and potentially the purchase of REOCs. Investment may also be made in non-traditional property types which typically contain greater risk. Opportunistic investments typically have even greater appreciation potential than value investments (e.g., 50% of total returns); correspondingly, these investments offer a higher return potential and a higher risk profile than core or value investments. In many cases, since appreciation is the primary goal of opportunistic investing, many are originated with little, if any, in-place income and therefore less current income as a portion of total return. Higher leverage is used (i.e., up to 80% with some funds).

The following table sets forth investment policy ranges for the above risk/return categories:

Real Estate Program Risk/Return Diversification Guidelines		
Risk/Return Strategy	**% of Asset Class**	**Policy Range**
Core	70%	50%-100%
Value	20%	0%-40%
Opportunistic	10%	0%-20%

Investment Guidelines

All investments will be managed as approved by the Board consistent with the objectives and policies of the Plan and subject to the investment guidelines outlined below.

To the extent possible, Consultant, Investment Staff and the Board shall adhere to the following investment guidelines:

Alignment of Interests:

Preferred investments for the Program will be those that exhibit the highest degree of management accountability and the greatest alignment of interests. Consultant, with assistance from Investment Staff, will seek, but will not be limited to, dedicated management teams that: (i) co-invest or have substantial ownership interest in the investment entity, (ii) have controlling positions with provisions for liquidity, and (iii) have high levels of disclosure, as well as the mitigation of conflicts of interest.

Leverage:

The Plan's Real Estate Program may employ leverage. Consultant, with assistance from Investment Staff, shall be responsible for monitoring the use of leverage in the real estate portfolio in order to enhance investment returns. Such leverage may be at the manager or investment level. Because leverage also increases the volatility of the real estate portfolio, careful consideration will be given to the impact of leverage on investment and portfolio risk. In addition, limitations on the amount of leverage at the individual asset or investment entity level as well as debt service coverage requirements will be negotiated or arranged wherever possible.

Leverage at the aggregate Real Estate Program level shall be limited to 50%. To preserve the character of the real estate asset class within the Plan's composite investment portfolio, the aggregate asset class shall not be over-leveraged. This shall be measured by comparing the principal amount of debt secured by real estate investments in the portfolio annually to the gross market value of the real estate portfolio. Leverage for each strategy shall be limited, as shown in the table below:

Real Estate Program Leverage Guideline	
Investment Strategies	**Policy Range**
Core	Up to 40%
Value	Up to 65%
Opportunistic	Up to 75%
Total	Up to 50%

Additionally, the Consultant shall monitor the Program's leverage to evaluate compliance with the above stated guidelines through the quarterly performance report.

Valuations:

The Investment Staff and Consultant shall review the manager's proposed valuation policy and request that each investment be valued at least annually using internal valuations. Core and value-added funds may secure third party appraisals.

Eligible Ownership Vehicles:

The selection of appropriate investment ownership vehicles will focus on structural aspects that provide for (i) maximum liquidity and control, while mitigating risk, (ii) the highest level of accountability on the part of management, and (iii) alignment of interests. Such criteria are critical to the Plan's ability to meet its objectives in the real estate asset class.

Real estate investments shall be made in commingled vehicles including, but not limited to: (i) closed-end funds and (ii) open-end funds. The table below profiles the Program's investment structure diversification guidelines, specifically: (i) investment vehicle type; (ii) liquidity level; and (iii) the Policy range. More specific information on each type of investment vehicle is shown below the following table.

Real Estate Program Investment Structure Diversification Guideline		
Investment Vehicle	**Liquidity Level**	**Policy Range**
Commingled Funds-Open-End	Moderate	Up to 90%
Commingled Funds-Closed-End	Illiquid	Up to 60%
Public Real Estate Securities	Liquid	Up to 20%
Private Real Estate Separate Accounts	Illiquid	Up to 20%

A. Closed-End Commingled Investments:

Investments in closed-end commingled vehicles shall have clearly articulated and viable exit strategies through which assets can be disposed of or liquidated upon termination of the investment and on an interim basis. The term of these investments shall also be limited to no more than seven to ten years and shall provide for a winding-up and orderly liquidation within this time period. Investment agreements for closed-end commingled vehicles shall include flexible provisions for early termination, removal of management by investors and interim liquidation of investor holdings.

B. Open-End Commingled Investments:

Open-end commingled fund investments shall include flexible redemption provisions, though such provisions often do not provide investors with liquidity at times when it is most needed. Therefore, it is critically important that such investments be made with the most proactive of managers.

In addition, to the extent possible, investments in closed and open-end commingled fund vehicles shall include an opportunity for investors to participate on advisory boards.

C. Public Real Estate Securities:

Public real estate related securities may comprise up to 20% of the Program's allocation, on a buy and hold basis. These investments shall be paced over an appropriate time period as determined by the Consultant with the Managers to avoid a significant investment during a high valuation period.

D. Private Real Estate Separate Accounts

Private real estate separate account investments may comprise up to 20% of the Program's allocation. These investments shall be paced over an appropriate time period as determined by the Consultant with the Managers. Examples of such assets are stand-alone real estate properties, such as office buildings.

Eligible Investment Types:

Equity real estate investments may include direct or indirect equity investment in real estate (including all rights and interests incident thereto) such as: (i) interests in corporations, partnerships and other entities whose primary business is the acquisition, development and operation of real property, (ii) participating or convertible participating mortgages or other debt instruments convertible to equity interest in real property based on investment terms (and not merely by foreclosure upon default), (iii) options to purchase real estate, leaseholds, and sale-leasebacks, (iv) all other real estate related securities such as lower or unrated tranches of pre-existing securities or structured debt instruments, which have equity features.

The following table sets forth the guidelines governing the Program's investment structure.

Real Estate Program Investment Structure Diversification Guideline	
Investment Structure	**Policy Range**
Private Equity Real Estate	70%-100%
Private Debt	0%-20%
Public Equity	0%-20%
Public Debt	0%-10%

Diversification:

In portfolio theory, the principle of diversification is defined as the process of combining investment alternatives so that unique risk is reduced and the range of likely expected future returns is narrowed. This shall be accomplished in the real estate portfolio through the investment of capital among a number of different investment management organizations and in a variety of investment strategies and structures, property types and geographic regions, among other factors.

Diversification by Investment Manager:
To reduce risk, the real estate portfolio shall be diversified by investment management organization. No single investment management organization shall manage more than 30% of the total committed capital of the Plan allocation (with the exception of within the first 12 months of the initial funding of the real estate portfolio).

The Plan shall limit its exposure to any single Manager or investment, and be subject to other investment restrictions to reduce risk, as further defined below.

1. **Maximum Manager Allocation**. No single manager shall be allocated more than thirty percent (30%) of the Program's total allocation (including committed capital) at the time of the prospective investment commitment. The allocation amount calculation shall include all of the Program's investment commitments remaining to the Manager plus the net asset value of the existing investments at the time of measurement or at the time of a prospective investment allocation.

2. **Minimum Investment Size**. The Program's minimum investment commitment to a commingled fund Manager shall be $10 million.

3. **Maximum Investment Commitment**. The Program's maximum investment commitment to a commingled fund Manager shall be shall be limited to fifteen percent (15%) of the Program's allocation to real estate at the time of the prospective investment commitment.

4. **Open-End Commingled Fund Guidelines**. The Program shall not invest with a Manager that has significant enterprise or platform risk unless the Program is adequately compensated for that risk. Accordingly, the Program's investment in a single open-end commingled fund shall not exceed twenty percent (20%) of the total net market value of the commingled fund at the time of the prospective investment unless either (i) the Program receives adequate benefits to offset the associated risk (such as preferred fees and/or enhanced representation as a non-control investor) or (ii) it is determined that the Manager's platform is viable and effective even without the Program's commitment. The

Plan shall not consider investments in an open-end commingled fund that has less than $100 million in net asset value, exclusive of the Program's investment.

5. **Closed-End Commingled Fund Guidelines**. The Program shall not invest with a Manager that has significant enterprise or platform risk unless the Program is adequately compensated for that risk. Accordingly, the Program's investment in a single closed-end commingled fund shall not exceed twenty percent (20%) of the total investor commitments to the fund at the time of closing of the commitment period of the prospective investment unless either (i) the Program receives adequate benefits to offset the associated risk (such as preferred fees and/or enhanced representation as a non-control investor) or (ii) it is determined that the Manager's platform is viable and effective even without the Program's commitment. The Plan shall not consider investments in a commingled fund that has less than $100 million in net equity capital commitments, exclusive of the Program's investment.

The Consultant and the Investment Staff shall be responsible for reviewing fund terms to ensure they are consistent with or have incorporated the applicable restrictions previously described. Even though a prospective commingled fund allocation may be in compliance with the Policy restrictions, the Consultant shall complete reasonable due diligence with respect to each prospective investment to determine whether it is appropriate for recommendation to the Investment Staff and the Board. The Consultant may consider a number of factors in determining whether investments are reasonable and appropriate for institutional investors, including the following: the level of investment by institutional investors (e.g., pension funds, endowments, foundations and sovereign funds); the size of the organization; the experience of key personnel; the track record of key personnel in investments comparable to the strategy to be undertaken; and the financial condition of the firm.

Diversification by Geography:

To reduce risk, investments in the real estate portfolio shall be well diversified by geography. The importance of location to the long-term value of real estate is based on local economic fundamentals and the other risk attributes (e.g., weather, earthquake and local government impact) of regional areas. The distribution of real estate investments by geographic region shall be monitored for compliance within the broad ranges set forth in the table below.

Real Estate Program Geographic Diversification Guidelines	
Geographic Regions	**Policy Range**
West	Up to 50%
South	Up to 40%
Midwest	Up to 40%
East	Up to 50%
International	Up to 20%

The Consultant shall include in each Annual Strategic Plan investment guidelines and targets related to the Program's international allocation.

Diversification by Property Sector:

To reduce risk, the real estate portfolio shall be well diversified by property type and primarily invested in apartment, industrial, office and retail assets. The Value-Added and Opportunistic components of the Portfolio are likely to contain a broader array of non-traditional property types. Property type portfolio exposure levels have had a significant impact on institutional investor returns since property types have historically performed differently during economic cycles. The guidelines governing the Program's property type exposure are shown in the following table. The Consultant shall monitor the Program's real estate in its quarterly performance reports to indicate the level of compliance with these guidelines.

Real Estate Program Property Diversification Guidelines	
Property Types	**Policy Range**
Residential	Up to 40%
Industrial	Up to 35%
Office	Up to 40%
Retail	Up to 40%
Hotel	Up to 15%
Other Real Estate[1]	Up to 20%

[1]Includes other property types not included within the NCREIF Index, including senior living, manufactured housing, student housing, healthcare, land and self storage.

Real estate investments may include investments other than the traditional property types, such as healthcare and manufactured housing. The Consultant shall include a section in each Annual Strategic Plan reviewing the Program's property-type exposures and investment objectives relating thereto.

Diversification by Investment Life Cycle:

Investment life cycle refers to the stage of development of a real estate investment. The stages of development include the following: (1) land or pre-development (i.e., un-entitled or partially-entitled land); (2) development/redevelopment (i.e., in process of entitling or constructing improvements); (3) leasing (i.e., less than full or market occupancy); and (4) operating (i.e., greater than market occupancy). As a result of the risks associated with development, at no time shall the Program have an exposure exceeding 10% to total non-operating investments (i.e., the total of pre-development/land, and development/redevelopment). Also, the Consultant shall monitor the Program's exposure to different life cycles through the quarterly performance report, which shall indicate the Program's non-operating investment exposure and whether a non-compliance issue exists.

Dollar Cost Averaging:
To reduce market risk, the Plan shall employ dollar cost averaging, or buying into investments over a period of time rather than all at once. More specifically, with regard to higher risk investments such as Value-Added or Opportunistic investments, the Fund shall endeavor to own such investments that are diversified by vintage year.

General

1. Investment Manager Reports

Investment Staff shall require periodic reports (i.e. quarterly) from investment managers to facilitate monitoring.

2. Monitoring Investments

Consultant, with assistance from Investment Staff, shall monitor individual investments and the portfolio as a whole. Monitoring includes diversification across real estate strategies to assure an appropriate mix to reduce risk in the Program's investments.

3. Performance

The Plan shall assess the performance of real estate investments relative to the following areas:

a. Objectives established by the manager
b. Risk undertaken
c. The long-term performance objective, with appropriate interpretation if applied to the short-term.

4. Investment Reports

Quarterly reports shall be provided to the Board. These reports include, but shall not be limited to, reviews of individual investments and their performance.

Other Specific Policy Considerations

Manager Investment Guidelines:

1. Minimum Requirements/Investment Strategies

a. The principals shall demonstrate relevant experience in or directly applicable to the market in which they propose to work.
b. The principals shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.
c. The principals shall demonstrate the requisite skills and experience necessary to execute successfully the proposed strategy, including evidence from similar endeavors.
d. The principals shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment.
e. The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors.
f. The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return.
g. The risk/reward trade-off in the particular market that is addressed by a partnership proposal shall be attractive, based on reasonable assumptions.
h. The principals/general partner shall have a significant co-investment in relation to their net worth.
i. The manager will have a minimum of $200 million of assets under management and a track record of at least three years, which may include years together as a team at a previous organization.

2. Evaluation Criteria

Primary emphasis will be on the quality and experience of the investment partners in a partnership investment. Additional factors may include, as appropriate:

a. Fit with the Program Strategy, Investment Policy and Strategic Plan, and within the overall Program.
b. A unique strategy that is not competitive with existing investments.
c. Integrity of the general partner, its employees, and other investors.
d. Quality of overall partnership governance, management of the Partnership, including controls and reporting systems.
e. Specific objectives.
f. Relationship with the relevant parts of the investment community.
g. Relationship with limited partners.
h. Nature of value added involvement.
i. Past financial performance of the individual investment professionals.
j. Reasonable ratio of committed capital per partner.
k. Appropriateness of terms and conditions.
l. Alignment of interests with limited partners.
m. Capital at risk.

3. Due Diligence

A due diligence review by Consultant shall include, but not be limited to, the following:

a. Discussions with principals of the proposed investment.
b. Review and analysis of all pertinent offering documents including: offering memorandums, subscription agreements, and private placement memorandums.
c. Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals.
d. Review and analysis of the investment concept, including entry and exit strategies and terms including fees, principal participation, and structure.
e. Review and analysis of the fit within the Program, including fit with the Strategic Plan, other constraints and guidelines, and compliance with applicable investment policies.
f. Review of news articles, principals, prior investments, and concepts.
g. Reference checks of principals.
h. Review and analysis of track record including performance of prior and current investments.
i. Consideration of relative size of the proposed investment.
j. Investigation of special terms and side letter agreements with past or present investors.
k. Review of any lawsuits or litigation involving the general partner, its principals, employees and prior funds.
l. Due diligence visit to the Partners' offices.
m. Ensure that the manager is operating in compliance with the Water & Power Placement Agent Policy, if applicable.

4. Legal Constraints

Legal provisions to be considered include, but are not limited to:

a. Registered Investment Advisor (RIA): investment advisors retained by the Board are so registered or comparable procedure is established.
b. Regulatory (i.e. FCC, SEC, FTC).
c. Bankruptcy or other material litigation.
d. Appropriate alignment of interests.

12.1 Designated Responsibilities and Tasks

Additional Responsibilities of Consultant

<u>Deal Flow Management</u>

- Sourcing Opportunities
    - Perform gatekeeper functions by meeting with groups, reviewing the investment documentation including the Private Placement Memorandums and Offerings documents
    - Receive and review opportunities forwarded from the Plan
    - Meet and interview potential investment management teams
    - Evaluate opportunities presented outside of the Plan's relationship for appropriateness for the Program
    - Maintain a database of opportunities considered for the Program

<u>Investment Due Diligence</u>

- Desk Review
    - Review offering memorandum, limited partnership agreement, marketing materials, etc.
    - Analyze:
        - Manager and fund
        - Market opportunity
        - Investment strategy
        - Due diligence file provided by Consultant
        - General Partner background and experience
        - Track record
        - Terms
        - Alignment of interest
    - Upon completion, review findings with Board/Investment Staff and recommend further review or rejection

- Full Due Diligence Review
    - Review completed due diligence questionnaire
    - Conduct reference checks
    - Conduct on-site visit as appropriate
    - Review economic and business terms of legal documents
    - Communicate status of Full Due Diligence Review to Board/Investment Staff
    - Upon completion, prepare and issue report to Board/Investment Staff with recommendation for investment or rejection; include appropriate supporting documentation with the report
    - Arrange meeting to review materials and recommendation
    - Provide copies of all Courtland due diligence materials to Investment Staff

- Terms Negotiation
    - Negotiate specific partnerships terms, if appropriate

<u>Performance Monitoring</u>

- Consultant
    - Receive copies of all notices of capital calls and cash distributions
    - Receive copies of all financial reports and other communications
    - Calculate performance and reconcile with the manager and master custodian, as needed
    - Prepare quarterly evaluation reports, with information including, but not limited to:

        - Partnership
        - Commitment
        - Contributions
        - Distributions
        - Fair Market Value
        - TWR and IRR (where applicable)
        - Performance by manager and strategy and risk/return classification
        - Portfolio review of exposures/diversification
        - Manager specific data/updates
        - Real estate economic market overview
    - Prepare Annual Strategic Plan and review of Investment Policy

Duties of Manager

- Adhere to GIPS-compliant reporting and performance measurement standards and comply with generally accepted accounting principles ("GAAP") applied on a fair market value basis.
- Execute and perform its duties under the terms of the investment vehicle documents.
- Provide timely requests for capital contributions.
- Provide quarterly financial statements, annual reports and other investment information requested by the Investment Staff and/or the Consultant.
- Conduct annual meetings to discuss important developments regarding investment and management issues.
- Provide quarterly questionnaires and compliance materials to the Consultant.

Duties of Legal Counsel

- The legal counsel selected by the Plan will represent the Plan and will review all real estate related documents and provide advice for special investment situations as needed. Execute and perform its duties under the terms of the investment vehicle documents.

12.2 Guidelines for Initial Manager Evaluation

Organization: Firms considered for this Program are expected to include established, long-tenured firms in addition to potentially including recently formed organizations that may be raising their first institutional investment vehicle. Alignment of interests (including ownership, compensation, general partner commitment, etc.) will be important factors in the proposed investment opportunities. An extensive review of these key factors and governance rights is to be conducted during the evaluation.

Investment Experience: The general partners are expected to have significant investment experience and expertise relevant to their investment strategy. Depending on the investment, greater emphasis may be placed on the experience of the members of a specific team rather than the firm as a whole as opportunities may result from professionals splitting from more established firms raising their first institutional fund. This also pertains to analyzing performance track records. The track records of the team may need to be examined on its own merit rather than requiring a track record representative of the entire firm.

Staffing: The organization must have sufficient investment professionals and support staff to implement the proposed strategy. The amount of targeted capital commitments, average investment size and anticipated number of transactions shall be reviewed to assess the appropriate staffing level.

Investment Strategy: The investment strategy of potential investment opportunities shall be assessed for appropriateness given the Program's goals and objectives. The investment strategy is required to be proposed in sufficient detail to allow for extensive review of the opportunity, verification of the investment concept (given existing market conditions) and of the potential risk factors.

Fund size: Aggregate fund sizes for potential opportunities will range significantly. The proposed fund size will be examined to ensure appropriateness for the proposed investment strategy given the investment approach and market dynamics. In addition, the Plan's ownership position will be determined to ensure that there is sufficient diversification of investors in the fund.

Type of Investments: Opportunities to be reviewed for the Program are expected to span Core and Value-Added real estate. Core investments will typically include well-located properties of high-quality design and construction that have significant occupancy levels; however, a limited number of investments may also include "other" property types that are generally considered non-core. Value-Added investments may involve efforts to increase property value such as releasing, repositioning, redevelopment, or development, as well as traditional and non-traditional property types (e.g. hotels, mini-storage, senior housing, timber, etc.). All real estate investments will be U.S. based.

Terms: At a minimum, partnership terms are expected to be "in-line" with industry norms. In particular, the "distribution waterfall" will be examined for appropriate prioritization of distributions and the clawback provision will be reviewed to ensure adequate mechanisms are in place to protect the Plan. Given the opportunity or need, Consultant will negotiate various terms (particularly governance terms) to be "limited partner friendly" in order to compensate the Plan for the unique risks associated with investing in real estate investments.

12.3 Guidelines for Ongoing Manager Evaluation

Applicable Investment Strategies/Structures

- Open-End Core Commingled Funds
- Public Real Estate Securities

Investment Performance Review of Investment Manager(s) and its (their) Investment Portfolio(s)

As part of the ongoing reporting process, the investment manager will report quarterly and trailing annualized performance of the respective portfolio(s) to the Plan and its Consultant on a quarterly basis (i.e., every three months). In addition, the investment manager will provide performance attribution statistics that explain the causes of under- or out-performance relative to the established benchmarks.

The investment manager will also report any changes in investment-related personnel, organization or investment approach/strategy that may potentially impact the investment results of the portfolio in question.

Independent Evaluation of Investment Performance by the Plan

The Plan (or its Consultant) will evaluate investment performance on a quarterly basis using the investment performance Watch Status criteria found in Section 4.3. Such evaluations will also be used to verify the quarterly performance information disclosed by the investment managers themselves. If the investment manager(s) do(es) not meet one or more of the criteria in Section 4.3, the Board will place the specific investment manager(s) on watch status for investment performance reasons.

The quarterly evaluation will indicate (i) whether an investment manager is on watch status; (ii) the reason for watch status, (iii) the approximate date the investment manager and the respective portfolio was placed on watch status, (iv) the length the investment manager has been on watch status, and (v) additional comments. If the investment manager/portfolio was placed on watch status for investment performance reasons, the status report will also include post-watch investment performance to gauge if the investment manager is addressing investment performance issues.

Periodic Monitoring Activities

As part of its ongoing fiduciary responsibilities, as well as in assessing the potential of an investment manager to produce future added value, the Plan and its Consultant should regularly review several qualitative and quantitative aspects of an investment manager's management and practices. Key factors include, but are not limited to:

- Compliance with the guidelines agreed upon for management of the Board's portfolio, including holding unauthorized issues;

- Review of the investment manager(s) investment strategy and style, especially the acquisition/disposition (open-end core commingled funds) and buy/sell (public real estate securities) disciplines;

- Review of portfolio valuation, including going-in cap rate, discount rate, and exit cap rate (open-end core commingled funds);

- Review of portfolio leverage levels;
- Growth in portfolio asset level/assets under management;
- Risk profile relative to the portfolio's benchmark;
- Review of organizational structure;
- Stability of investment manager personnel and organization;
- Review of investment manager contractual obligations to the Plan (including management fees);
- Evidence of illegal or unethical behavior by the investment management firm;
- Unwillingness to cooperate with reasonable requests by the Board, such as information, meetings or other material related to its portfolios.

As previously outlined, certain investment manager(s) may (i) fail to meet pre-established investment performance criteria and/or (ii) may prove sub-standard across any number of qualitative factors. In such cases, the next step would be for the Plan (or the Consultant) to produce a document called a Portfolio Review. This Portfolio Review would explain those factors where the investment manager(s) and/or portfolio(s) are failing to meet specific criteria and provide a basis for putting investment manager(s) on watch status. The Portfolio Review would typically be in the form of a memorandum to the Board.

The watch status process will follow the same guidelines as outlined in Section 4.3.

12.4 Global Real Estate Investment Trust Guidelines

The Plan has appointed Manager(s) to manage a portion of the Plan's assets. These assets will be managed in conformance with the objectives and guidelines delineated below and in accordance with the formal contract with the Retirement Board.

Portfolio Component Definition

The Manager has been designated as a global real estate investment trust ("REIT") manager. As a global REIT manager, the Manager is expected to invest in companies located globally which invest in real estate-related activities, with an emphasis on generating cash flow from core investments. The goal of the Global REIT portfolio is to provide superior performance vs. the FTSE EPRA/NAREIT Global Developed Index over a complete investment cycle. Emphasis is also placed upon volatility compared to the Index.

Portfolio Guidelines

1. The portfolio shall be composed of cash equivalents and equity securities of companies doing business both in the United States and outside the United States with minimum market capitalizations of $200 million at purchase. Equity securities shall be restricted to those issues listed on the major local-country stock exchanges. The markets that the Manager can invest in are those within the FTSE EPRA/NAREIT Global Developed Index.

   SEC Rule 144A international equity instruments with registration rights are fully permissible. Those instruments without registration rights must not exceed 10% of the lesser of cost or market value of any single international equity portfolio.

In order to minimize transaction costs and market impact associated with country reclassification, and as FTSE reclassifies specific countries from one market to another (such as from emerging to developed or frontier to emerging), the investment manager, with advance notification to the Retirement Plan Manager, may invest in such countries, subsequent to the announcement of FTSE's formal reclassification and prior to its effective date.

2. The Manager shall not use (non-currency) derivatives within the portfolio without the expressed written consent of the Plan. If the Manager elects to use derivatives as part of its investment strategy, the Plan requires that the Manager document the rationale for using such instruments. The Manager shall not invest in letter or restricted stock, naked options or future contracts, and uncovered short positions or commodities. Use of any derivative instrument for speculation is prohibited.

3. Currency hedging up to a maximum of 25% of the portfolio is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts.

4. For prudent diversification the portfolio shall have a minimum of 50 issues quoted in at least 10 countries/regions, although assets will not be specifically allocated to individual countries or markets. The maximum size of any single issue shall be the greater of 5% of the portfolio or 125% of the benchmark weight, except at no time shall any specific issue represent more than 10% of the lesser of cost or market value of the portfolio. In addition, no issue shall be purchased in the Portfolio if more than 10% of the outstanding shares of that company are held by the Manager in the total of all of its accounts.

5. The cash equivalent portion should not normally exceed 5% of the portfolio. Cash equivalents may be U.S. dollar or non-U.S. dollar denominated.

6. Turnover in the portfolio shall not normally exceed 150% in any twelve month period. Turnover shall be defined as the total dollar value of the lesser of purchases or sales divided by the market value of the portfolio at the beginning of the period.

<u>Portfolio Characteristics</u>

1. It is expected that the portfolio will invest across a broad array of countries within the FTSE EPRA/NAREIT Global Developed Index. Regional and country weights, however, may vary significantly from the index.

2. It is expected that the portfolio's weighted average dividend yield on a quarterly basis will be within a +/- 0.5x range of the market as represented by the FTSE EPRA/NAREIT Global Developed Index.

<u>Performance Objectives</u>

On an annual basis the Manager is expected to outperform the FTSE EPRA/NAREIT Global Developed Index, net of fees, to be measured over a market cycle of three-to-five years.

XIII. Private Equity Investment Policy

Purpose

This document sets forth the investment policy ("the Policy") for the Plan's Private Equity Program ("the Program"). This Policy is designed to ensure that investment managers, consultants, and the Board of Administration of the Water and Power Employees' Retirement, Disability and Death Benefits Plan and Board of Water and Power Employees' Retiree Health Benefits Fund (hereinafter referred to as the "Board" of the "Retirement Plan" and "Health Fund") and Investment Staff take prudent and careful action while investing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling the investment risks and returns associated with this segment of the portfolio.

The Program is designed to meet the Retirement Plan and Health Fund's long-term actuarial target through the identification and participation in private equity opportunities that are expected to generate high rates of return while also providing diversification benefits.

Strategic Objective

The strategic objective of the Program is to develop a diversified private equity portfolio capable of achieving investment returns commensurate with Program targets. Private equity investments are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional investments. Accordingly, total rates of return from private equity investments are expected to be greater than those that might be obtained from conventional public equity or debt investments. They have a low correlation to other investment classes and therefore can contribute to reducing the risk and enhancing the returns of a total portfolio, as well as providing portfolio diversification.

A diversified portfolio of attractive private equity opportunities is expected to be created by implementing a strategic "top down" assessment of attractive segments of the market for investment combined with a "bottom up" approach to manager identification. Consultant, with assistance from Investment Staff, shall proactively seek out the most attractive investment opportunities given current market conditions, while maintaining appropriate diversification. Portfolio weightings shall be a function of the specific risk and return profile of an investment opportunity and the Program's overall needs.

Private equity investments shall be considered solely in the interest of the Retirement Plan and Health Fund's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Enhance the Retirement Plan and Health Fund's performance by generating strong long-term results.

2. Hedge against long-term liabilities.

3. Provide added diversification to the Retirement Plan and Health Fund's overall investment program.

Responsibilities and Delegations

The Plan will utilize the services of an In-Kind Distribution Manager to liquidate any in-kind distributions received from its private market managers.

Section 2.3 outlines specific responsibilities and tasks to be performed by the Board, Investment Staff and Consultant(s).

Performance Objective

The long-term (5-10 years) expected performance objective of the Program shall be the return of the Russell 3000 Index plus a 300 basis point risk premium. Use of the Russell 3000 Index reflects the opportunity cost of investing in private equity versus publicly traded common stocks. This index is reported one quarter in arrears.

Investment Approaches and Parameters

A. General Approach

Direct partnership investments shall be emphasized. Fund of fund vehicles, investing in both the primary market and secondary market, shall also be considered on an opportunistic basis to access specific private equity exposures in the creation of a diversified private equity portfolio. Opportunities shall be sought with specific criteria appropriate for investment within a diversified private equity portfolio. Strategic reviews shall assess existing portfolio exposures, identify attractive segments of the market for opportunistic investment, and determine appropriate portfolio weightings. Based on these assessments, Retirement Plan and Health Fund and Consultant shall proactively seek out attractive investment opportunities, while maintaining appropriate diversification.

B. Program Strategy

The Program Strategy shall be revised periodically as appropriate and updated through the Strategic Plan.

The Strategic Plan shall contain the following elements:

1. Program goals and objectives

2. Structure of the program

3. Strategic approach to the asset class

The Board shall review the Program annually via the Investment Policy and Strategic Plan prepared by Consultant with assistance from Investment Staff. The Strategic Plan shall be based upon broad economic structural analysis, market conditions, and a review of the existing portfolio. The Strategic Plan shall detail tactical priorities, strategy enhancements, and other objectives.

C. Management of Partnership Investments

The Program shall be continually refined to obtain the most effective mix of investments. The Program shall invest primarily in private equity direct partnerships and secondarily, in opportunistic commitments to private equity fund of funds.

Partnerships shall be continually reviewed in the following areas:

1. Fit with the Strategic Plan

2. Pace and timing of investment commitments, funding and return of capital

3. Diversity of sectors (industry, geographical, investment style, and others as appropriate)

4. Targeted performance according to stated objectives specific to the investment

D. Quality Control Processes

The Program shall employ a quality control process, which includes Consultant, with assistance from Investment Staff, to monitor Program efficiency, track investment performance, and control risk.

1. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.

2. Risk Control: Program standards are maintained through the following processes –

   a. Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.

   b. Documenting due diligence activities.

E. Specific Risk Parameters

The Program will be exposed to specific risk parameters that are associated with investing in private equity, including, but not limited to:

1. Operating and Business Risk: Certain private equity investments entail above average operating and business risk.

2. Liquidity Risk: Private equity investments lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are limited; and, often, there is no current income.

3. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include advisory committee participation and specific termination provisions in partnership transactions.

4. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

F. Guidelines for Evaluating Proposals

Proposed partnership opportunities shall be evaluated relative to their fit with the Program's Investment Policy and Strategic Plan. Section 13.2 contains broad guidelines for initial partnership evaluation.

G. Types of Investments

Partnerships with attractive return characteristics, that also enhance portfolio diversification and are not otherwise prohibited by the Retirement Plan and Health Fund, shall be considered for the Program. Fund of funds and direct partnerships will be considered for the Program. Fund of funds make commitments to a diversified portfolio of underlying private equity partnerships. This includes primary market fund of funds that commit capital to partnerships that are currently raising capital in addition to secondary market fund of funds that invest in existing partnerships that have already closed their fund and are investing capital. Fund of funds may invest in partnerships, and direct partnerships may be considered, that generally fall within the categories defined below.

1. Buyout and Corporate Restructuring Capital: Investments in leveraged buyouts, management buyouts, equity buyouts, employee buyouts, buy-and-build, other acquisition strategies and restructurings, and related uses of capital.

2. Expansion Capital: Investments in established companies for the purpose of growing their businesses.

3. Venture Capital: Investments in relatively small, rapidly growing, private companies in various stages of development.

4. Energy and Natural Resources: Investments in the exploration, extraction, accumulation, generation, movement or sale of energy (e.g., oil, gas, coal, electricity), and other natural resources and related service companies.

5. Distressed Securities: Debt or equity securities investments in troubled companies, under the assumption that the securities will appreciate in value following a restructuring of the company's obligations. This includes, but is not limited to, investments in companies that are insolvent or unable to pay their debts as they come due. This may include companies subject to the Bankruptcy Reform Act, specifically Chapter 7 (Liquidation) and Chapter 11 (Reorganization) and companies under-going restructurings outside of Bankruptcy Court.

6. Turnarounds: Investments in companies experiencing financial or operating difficulties. These companies may or may not be insolvent.

7. Mezzanine: Investments in unsecured or junior obligations that typically earn a coupon or dividend payment and may have warrants on common stocks or conversion features to enhance returns.

8. Special Situations: This includes all other types of investments, e.g. active minority positions, secondary investments, governance strategies, industry specific strategies, and unconventional investments.

9. International: Investments that are located in countries other than the United States, or have significant portions of their operations outside of the United States shall be considered Aggregate exposure to investments outside the United States, on a market value basis, is not expected to exceed 35%.

Benchmark

The long-term performance benchmark for the Program shall be the return of the Russell 3000 Index plus a 300 basis point risk premium. Given the nature of the asset class and the difficulty benchmarking shorter-term results, there may be significant deviations between Program results and benchmark performance over shorter time periods.

General

Reporting

1. Reports received from investment managers

   Investment Staff shall require periodic reports (i.e. quarterly) from investment partners to facilitate monitoring.

2. Monitoring Investments

   Consultant, with assistance from Investment Staff, shall monitor the individual partnerships and the portfolio as a whole. Monitoring includes diversification across private equity investment types to assure an appropriate mix reducing risk in the Program's investments. Given the opportunistic nature of the Program, specific areas may be emphasized over the short-term with the long-term goal of developing a diversified program.

   The following types of diversification should be monitored, including, but not limited to:

   A. Economic Sector Diversification - Private equity investments should be diversified among sector groups;

   B. Form of Investment - Private equity investments should be diversified throughout various forms and categories of investment (e.g., LBO's, venture capital, distressed, mezzanine etc.);

   C. Payback Diversification - Private equity investments can take significant time to pay back capital. The Retirement Plan and Health Fund should attempt to invest in partnerships across a spectrum of payback scenarios;

   D. Geographic Diversification - The Retirement Plan and Health Fund should consider geographical diversification in investment selection; and

   E. Time Diversification - The Retirement Plan and Health Fund should endeavor to invest in a consistent manner when appropriate risk adjusted return opportunities are available.

3. Performance

   The Retirement Plan and Health Fund shall assess the performance of the partnerships relative to the following areas:

   A. Objectives established by the partnership

   B. Risk undertaken

   C. The long-term performance objective, with appropriate interpretation if applied to the short-term.

4. Investment Reports

   Quarterly reports shall be provided to the Board <u>by the Consultant</u>. These reports include, but shall not be limited to, reviews of individual investments and their performance.

Other Specific Policy Considerations

Partnership Investment Guidelines:

1. Minimum Requirements/Investment Styles

    A. The principals shall demonstrate relevant experience in or directly applicable to the market in which they propose to work.

    B. The principals shall demonstrate that they are specifically qualified to pursue the proposed strategy in the market in which they propose to work.

    C. The principals shall demonstrate the requisite skills and experience necessary to execute successfully the proposed strategy, including evidence from similar endeavors.

    D. The principals shall dedicate sufficient time and effort to the proposed opportunity and make, within the context of the particular investment, a meaningful personal financial commitment.

    E. The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept, and of the risk factors.

    F. The proposed strategy and business plan shall provide reasonable assurance that the investment opportunity can produce the required return.

    G. The risk/reward trade-off in the particular market that is addressed by a partnership proposal shall be attractive, based on reasonable assumptions.

    H. The principals shall have a significant economic position in the partnership on an equal basis with Retirement Plan and Health Fund.

2. Evaluation Criteria

    Primary emphasis will be on the quality and experience of the investment partners in a partnership investment. Additional factors may include, as appropriate:

    A. Fit with the Investment Policy and Strategic Plan and within the overall Program

    B. A unique strategy that is not competitive with existing investments

    C. Integrity of the general partner, its employees, and other investors

    D. Quality of overall partnership governance, management of the partnership, including controls and reporting systems

    E. Specific objectives

    F. Relationship with the relevant parts of the investment community

    G. Relationship with limited partners

    H. Nature of value added involvement

I. Past financial performance of the individual investment professionals

J. Reasonable ratio of underlying partnerships per partner

K. Reasonable ratio of committed capital per partner

L. Appropriateness of terms and conditions

M. Alignment of interests with limited partners

N. Capital at risk

3. Due Diligence

A due diligence review by Consultant shall include, but not be limited to the following:

A. Discussions with principals of the proposed investment.

B. Review and analysis of all pertinent offering documents including: offering memorandums, subscription agreements, and private placement memorandums.

C. Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals.

D. Review and analysis of the investment concept, including entry and exit strategies and terms including fees, principal participation, and structure.

E. Review and analysis of the fit within the Program, including fit with the Strategic Plan, other constraints and guidelines, and compliance with applicable investment policies.

F. Review of news articles, principals, prior investments, and concepts.

G. Reference checks of principals.

H. Review and analysis of track record including performance of prior and current investments.

I. Consideration of relative size of the proposed investment.

J. Investigation of special terms and side letter agreements with past or present investors.

K. Review of any lawsuits, litigation involving the general partner, its principals, employees and prior funds.

L. Due diligence visit to the Partner's offices.

4. Legal Constraints

Legal provisions to be considered include, but are not limited to:

A. Registered Investment Advisor (RIA): Investment advisors retained by the Retirement Plan and Health Fund are so registered or comparable procedure is established.

B. Regulatory (i.e. FCC, SEC, FTC).

C. Bankruptcy or other material litigation.

D. Appropriate alignment of interests.

13.1 Designated Responsibilities and Tasks

Additional Responsibilities of Consultant

Deal Flow Management

- Sourcing Opportunities
  - Receive and review opportunities forwarded from the Retirement Plan and Health Fund
  - Meet and interview potential investment management teams
  - Evaluate opportunities presented outside of the Retirement Plan and
  - Health Fund relationship for appropriateness of the Program
  - Maintain a database of opportunities considered for the Program

Investment Due Diligence

- Desk Review:
  - Review due diligence questionnaire, offering memorandum, limited partnership agreement, marketing materials, etc.
  - Analyze:
    - Market opportunity
    - Investment strategy
    - General Partner background and experience
    - Track record
    - Terms
    - Alignment of interest
  - Upon completion, review findings with the Retirement Plan and Health Fund and recommend review or rejection
- Full Due Diligence Review:
  - Conduct reference checks
  - Conduct onsite visit as appropriate
  - Extensively review economic and business terms of legal documents
  - Communicate status of Full Due Diligence Review to the Retirement Plan and Health Fund
  - Upon completion, prepare and issue report to the Retirement Plan and Health Fund with recommendation for investment or rejection; include appropriate supporting documentation with the report
  - Arrange meeting to review materials and recommendation

- Terms Negotiation:
    - Negotiate specific partnerships terms, if appropriate

Performance Monitoring

- Consultant
    - Receives copies of all notices of capital calls and cash distributions
    - Receives copies of all financial reports and other communications
    - Calculates performance and reconciles same with the manager and master custodian, as needed
    - Prepares periodic reports
        - Quarterly: one-page status report listing:
            - Partnership
            - Commitment
            - Contributions
            - Distributions
            - Fair Market Value
            - IRR
        - Semi-Annual: full performance report
            - Containing brief market overview
            - Performance by manager, vintage year and segment
            - Review portfolio exposures/diversification
            - Provide manager specific data/updates
        - Annual: market overview, Investment Policy and Strategic Plan review

13.2 Guidelines for Fund of Funds Evaluation

Organization: Firms considered for this Program are expected to include established, long-tenured firms. However, recently formed organizations that may be raising their first institutional fund of funds may also be considered. Alignment of interests (including ownership, compensation, general partner commitment, etc.) will be important factors in the proposed investment opportunities. An extensive review of these key factors and governance rights is to be conducted during the evaluation.

Investment Experience: The general partners are expected to have significant decision-making investment experience and expertise relevant to their investment strategy. Depending on the investment, greater emphasis may be placed on the experience of the members of a specific team rather than the firm as a whole as opportunities may result from professionals splitting from more established firms raising their first institutional fund. This also pertains to analyzing performance track records. The track records of the team may need to be examined on their own merit rather than requiring a track record representative of the entire firm.

Staffing: The organization must have sufficient investment professionals and support staff to implement the proposed strategy. The amount of targeted capital commitments, average investment size and anticipated number of transactions shall be reviewed to assess the appropriate staffing level.

Investment Strategy: The investment strategy of potential investment opportunities shall be assessed for appropriateness given the Program's goals and objectives. The investment strategy is required to be proposed in sufficient detail to allow for extensive review of the opportunity, verification of the investment concept (given existing market conditions) and of the potential risk factors.

Fund size: Aggregate fund sizes for potential opportunities will range significantly. The proposed fund size will be examined to ensure appropriateness for the proposed investment strategy given the investment approach and market dynamics. In addition, the Retirement Plan and Health Fund's ownership position will be determined to ensure that there is sufficient diversification of investors in the fund (i.e. Retirement Plan and Health Fund should not represent more than 20% of any particular fund).

Type of Investments: Fund of funds opportunities to be reviewed for the Program are expected to span the global private equity segments, including: buyout/corporate restructuring, expansion capital, venture capital, energy/natural resources, distressed securities, special situations, etc.

Terms: At a minimum, partnership terms are expected to be "in-line" with industry norms. In particular, the "distribution waterfall" will be examined for appropriate prioritization of distributions and the clawback provision will be reviewed to ensure adequate mechanisms are in place to protect the Retirement Plan and Health Fund. Given the opportunity or need, PCA will negotiate various terms (particularly governance terms) to be "limited partner friendly" in order to compensate the Retirement Plan and Health Fund for the unique risks associated with investing in private equity investments.

13.3 Direct Partnership Guidelines and Investment Criteria

For consideration to be included in the Retirement and Health Fund's private equity portfolio, a direct partnership opportunity shall meet the following characteristics:

Organization: Firms considered for direct partnership investment are expected to be established, experienced firms. Alignment of interests (including ownership, compensation, general partner commitment, etc.) will be important factors in the proposed investment opportunities. An extensive review of these key factors and governance rights is to be conducted during the evaluation.

Investment Experience: Firms must have exhibited significant and relevant decision-making experience through the investment of at least one prior institutional partnership implementing the proposed investment strategy.

Track Record: Firms must have demonstrated the ability to generate top-quartile performance results relative to their vintage year and investment strategy peers.

Staffing: Firms must have maintained significant organizational stability with proven retention of key investment professionals. The organization must have sufficient investment professionals and support staff to implement the proposed strategy. The amount of targeted capital commitments, average investment size and anticipated number of transactions shall be reviewed to assess the appropriate staffing level.

Investment Strategy: The investment strategy of potential investment opportunities shall be assessed for appropriateness given the Program's goals and objectives. The investment strategy is required to be proposed in sufficient detail to allow for extensive review of the opportunity, verification of the investment concept (given existing market conditions) and of the potential risk factors.

Fund size: Aggregate fund sizes for potential opportunities will range significantly. The proposed fund size will be examined to ensure appropriateness for the proposed investment strategy given the investment approach and market dynamics. In addition, the Retirement Plan and Health Fund's ownership position will be determined to ensure that there is sufficient diversification of investors in the fund (i.e. Retirement Plan and Health Fund should not represent more than 20% of any particular fund).

Type of Investments: Direct partnership opportunities to be reviewed for the Program are expected to span the global private equity segments, including: buyout/corporate restructuring, expansion capital, venture capital, energy/natural resources, distressed securities, special situations, etc.

Terms: At a minimum, partnership terms are expected to be "in-line" with industry norms. In particular, the "distribution waterfall" will be examined for appropriate prioritization of distributions and the clawback provision will be reviewed to ensure adequate mechanisms are in place to protect the Retirement Plan and Health Fund. Given the opportunity or need, PCA will negotiate various terms (particularly governance terms) to be "limited partner friendly" in order to compensate the Retirement Plan and Health Fund for the unique risks associated with investing in private equity investments.

Risk Controls

The incorporation of direct partnerships into Retirement Plan and Health Fund's private equity portfolio is intended to be opportunistic in nature and provide complementary exposures to existing holdings providing the potential for higher returns in a cost-effective manner. Direct partnership investments are expected to be a primary component of the portfolio and are to be utilized in a risk-controlled manner. To that end:

1. A commitment to a single direct partnership is not to exceed 40% of annual targeted commitments, as outlined in the Annual Investment Strategy.

2. The Retirement Plan and Health Fund may not represent more than 20% of the limited partnership interests in a fund.

Glossary of Terms

Commodities: A sub-set of the managed futures investment approach that mainly involves the trading of derivatives and forward markets in the commodity sector. Commodity Trading Advisers (CTAs), regulated by the Commodity Futures Trading Commission (CFTC), are commonly retained to implement such strategies.

Convertible Arbitrage: Convertible arbitrage is the trading of related securities whose future relationship can be reasonable predicted. Convertible securities are usually either convertible bonds or convertible preferred shares, which are most often exchangeable into the common stock of the company issuing the convertible security. The managers in this category attempt to buy undervalued instruments that are convertible into equity and then hedge out the market risks. Fair value is based on the optionality in the convertible bond and the manager's assumption of the input variables, namely the future volatility of the stock.

Directional Strategies: These strategies do not fit cleanly in either of the two above strategies and are commonly a hybrid of the two

Short Selling: The short selling discipline has an equity component as well as fixed income component. Short sellers seek to profit from a decline in the value of stocks. In addition, the short seller earns interest on the cash proceeds from the short sale of stock.

Emerging Markets: Emerging market hedge funds focus on equity or fixed income investing in emerging markets as opposed to developed markets. This style is usually more volatile not only because emerging markets are more volatile than developed markets, but also because most emerging markets allow for only limited short selling and do not offer a viable futures contract to control risk. The lack of opportunities to control risk suggests that hedge funds in emerging markets have a strong long bias.

Distressed Securities: Distressed securities funds invest in the debt or equity of companies experiencing financial or operational difficulties or trade claims of companies that are in financial distress, typically in bankruptcy. These securities generally trade at substantial discounts to par value. Hedge fund managers can invest in a range of instruments from secured debt to common stock. The strategy exploits the fact that many investors are unable to hold below investment grade securities.

Diversified: A diversified fund-of-hedge fund is a multi-strategy, multi-manager product that has exposures spanning the spectrum of hedge fund investment strategies. The blend of underlying hedge fund strategies incorporated into a diversified fund-of-hedge fund (i.e., portfolio construction) is commonly a function of the specific risk and return characteristics of the product.

Equity Market-Neutral: Equity market-neutral is designed to produce consistent returns with very low volatility and correlation in a variety of market environments. The investment strategy is designed to exploit equity market inefficiencies and usually involves being simultaneously long and short matched equity portfolios of the same size within a country. Market neutral portfolios are designed to be either beta or currency-neutral or both. Equity market-neutral is best defined as either statistical arbitrage or equity long/short with zero exposure to the market.

Event Driven: This investment strategy class focuses on identifying and analyzing securities that can benefit from the occurrence of extraordinary transactions. Event-driven strategies concentrate on companies that are, or may be, subject to restructuring, takeovers, mergers, liquidations, bankruptcies, or other special situations. The securities prices of the companies involved in these events are typically influenced more by the dynamics of the particular event than by the general appreciation or depreciation of the debt and equity markets. For example, the result and timing of factors such as legal decisions, negotiating dynamics, collateralization requirements, or indexing issues play a key element in the success of any event-driven strategy.

Fixed Income Arbitrage: Fixed income arbitrage managers seek to exploit pricing anomalies within and across global fixed income markets and their derivatives, using leverage to enhance returns. In most cases, fixed income arbitrageurs take offsetting long and short positions in similar fixed income securities that are mathematically, fundamentally or historically interrelated. The relationship can be temporarily distorted by market events, investor preferences, exogenous shocks to supply or demand, or structural features of the fixed income market.

Global Macro: Macro hedge funds pursue a base strategy such as equity long/short or futures trend following to which large scale and highly leveraged directional bets in other markets are added a few times each year. They move from opportunity to opportunity, from trend to trend, from strategy to strategy.

Long/Short Equity: Long/short strategies combine both long as well as short equity positions. The short positions have three purposes, which can vary over time or by manager. First, the short positions are intended to generate alpha. This is one of the main differences when compared with traditional long-only managers. Stock selection skill can result in doubling the alpha. A long/short equity manager can add value by buying winners as well as selling losers. Second, the short positions can serve the purpose of hedging market risk. Third, the manager earns interest on the short as he collects the short rebate.

Merger Arbitrage: Merger arbitrage (also known as risk arbitrage) specialists invest simultaneously in long and short positions in both companies involved in a merger or acquisition. In stock swap mergers, risk arbitrageurs are typically long the stock of the company being acquired and short the stock of the acquiring company. In the case of a cash tender offer, the risk arbitrageur is seeking to capture the difference between the tender price and the price at which the target company's stock is trading.

Relative Value Strategies: This class of investment strategy seeks to profit by capitalizing on the perceived mispricings (in the manager's opinion) of related securities or financial instruments. Generally, relative-value and market neutral strategies avoid taking a directional bias with regards to the price movement of a specific stock or market. This makes this style most appealing for investors who are looking for high and stable returns accompanied by low correlation to the equity market.

Sharpe Ratio: This ratio is a risk-adjusted measure of a fund's performance. It is calculated as follows [(annualized rate of return)-(annualized risk-free interest rate)] / annualized standard deviation. For example, a fund with a Sharpe Ratio greater than 1.0 is achieving more than one unit of excess return per unit of risk undertaken.

Reference	Resolution Number	Approval Date	Explanation
Part V, Section 5.1	03-60	2/26/2003	Adopted (A) general investment guidelines and objectives for the DWP Retirement Plan and (B) specific investment guidelines and objectives for the Plan's passive Russell 1000 investment manager.
Part VI, Sections 6.1, 6.2, 6.3	04-02	7/10/2003	Adopted general guidelines for the International Investments/Developed markets segment, and specific guidelines for the growth, core, and value investment manager styles.
Part V, Sections 5.1, 5.2, 5.3	04-32	9/17/2003	Adopted (A) specific guidelines for the Plan's domestic equity large cap growth and large cap value investment managers, and (B) amendment of investment guidelines and objectives for the Plan's passive Russell 1000 investment managers which were adopted in Reso 03-60 on 2/26/03.
Part V, Sections 5.1, 5.2, 5.3	04-57	12/17/2003	Amended the Plan's investment guidelines to provide specific guidelines for its active growth/value/core international equity segment of the portfolio.
Part V, Sections 5.4, 5.5	04-64	1/15/2004	Amended the Plan's investment guidelines to provide specific guidelines for its domestic small cap equity portfolio.
Part III, Section 3.3; Part IV, Section 4.2; Part VI, Section 6.2	04-82	2/18/2004	(A) Amended Fidelity Management Trust Company's benchmark from MSCI EAFE+Canada to MSCI EAFE, and (B) eliminated conflicting language in the investment guidelines re: fixed income (moved permissible securities from high yield to core fixed income section). Also attached copy of Board proxy policies as an exhibit.
Part III, Section 3.3; Part IV, Section 4.2; Part VI, Section 6.4	04-94	3/17/2004	1. Deleted reference to managers' proxy policies; 2. Clarified investment limits for diversification purposes in active large cap value domestic equity guidelines; 3. Provided guidelines for emerging markets equity managers; 4. Provided guidelines for active fixed income managers; 5. Expanded Table of Contents to include separate sections for above guidelines.
Part IV, Section 4.2	04-130	6/16/2004	Clarified language in the active high yield fixed income segment (notification in event of downgrade below single C).
Part VI, Section 6.2	05-13	7/21/2004	Accepted guidelines of Fidelity Management Trust commingled fund to supersede the Plan's approved guidelines for international equity mandate.
Part V, Section 5.4 Part VI, Sections 6.4, 6.5	05-28 05-29 05-30	9/15/2004	Changed language in active small cap value domestic equity segment (ETFs may be used to temporarily invest excess cash); accepting guidelines of T.Rowe Price's commingled fund to supersede the Plan's approved guidelines for emerging market mandate; accepting the guidelines of The Boston Company's commingled fund to supersede the Plan's approved guidelines for emerging market mandate.
Part IV, Section 4.2	05-42	10/20/2004	Amended the Plan's investment guidelines to add bank loans to the list of permissible investments in the active high yield fixed income manager guidelines.
Part IV, Section 4.2	05-57	12/15/2004	Amended the Plan's investment guidelines for the high yield fixed income mandate by changing certain language set forth in the guidelines.
Part IV, Section 4.2	05-89	6/22/2005	Amended the Plan's investment guidelines for the core and high yield fixed income mandates by changing certain language set forth in the guidelines.
Part IV, Section 4.2 Part VI, Section 6.3	06-18	10/19/2005	Amended the Plan's investment guidelines for fixed income mandates and for the international equity mandates by changing certain language set forth in the guidelines (recognition of Fitch bond ratings, clarified international benchmark MSCI EAFE + Canada Value net dividends index).
Part IV	06-25	12/7/2005	Amended the Plan's investment guidelines to add section 4.0 - the investment manager performance monitoring procedures and criteria recommended by consultant.
Part IX, Section 9.2 Part X Part XI	07-61 07-62	4/4/2007	Updated the policy benchmark by incorporating benchmarks for real estate and alternative investments: for private equity, the new Cambridge Associates PE/VC blended index which includes an 85% allocation to the Cambridge Associates U.S. Private Equity Index and a 15% allocation to the Cambridge Associates U.S. Venture Capital Index benchmark; NCRIEF index for real estate asset class; T-Bills + 3% for hedge funds.

Reference	Resolution Number	Approval Date	Explanation
Part V, Section 5.1.5	08-05	8/1/2007	Updated the investment policy to incorporate the reconstitution of the Russell indices to include Benefit Driven Incorporations (BDIs) and to better define American Depository Receipts (ADRs) and exclude them from the investment policy.
	08-49	1/16/2008	Ratified the Board's action in connection with the adoption of a new asset allocation structure.
Part V, Section 5.3	09-13	8/20/2008	Amended the investment policy to lower the R-squared value for Fred Alger management.
Part III, Section 3.4	09-16	8/20/2008	Modified the derivatives language.
Part VI, Section 6.2.4	09-58	1/21/2009	Amended the investment guidelines for Pyramis Global Advisors on max exposure limits.
Part VII, Section 7.1.1, Section 7.2.1	09-92	4/15/2009	Changed to the investment guidelines to permit holding in equity securities resulting from debt restructuring.
Part VI, Section 6.2.1, Section 6.3.1, Section 6.4.1, Section 6.5.1	09-93	4/15/2009	Revised investment policy guidelines to allow 144a securities for international equity managers.
Part V, Section 5.1.5, Section 5.2.5, Section 5.3.5, Section 5.4.5, Section 5.5.5	09-94	4/15/2009	Modified investment policy language for domestic managers with respect to international securities.
Part IV, Section 4.6	10-04	7/1/2009	Revised the investment policy to add a provision for the use of placement agents and third-party marketers.
Part V, Section 5.5.1 (exceptions)	10-52	1/13/2010	Amended the investment guidelines by raising the cash limit from five percent to eight percent for Frontier's small cap growth mandate.
Part IX, Section 9.1	10-56	1/27/2010	Adopted Western Asset Management Company's global inflation-linked securities (GILS) investment policy.
Part VI, Sections 6.2.1,6.3.1,6.4.1, 6.5.1	11-01	7/14/2010	Changed the investment policy to address future index reconstitutions for international developed markets equity mandates and emerging markets equity mandates.
Part II, Section 2.1	11-03	7/14/2010	Implemented the Retirement Plan's evolving investment policy allocation schedule on October 1, 2010; implemented the newly adopted evolving investment policy allocation schedule for the Retiree Health Benefits Fund effective July 1, 2010; allocated the $100 million contribution from DWP according to the newly adopted evolving investment policy allocation schedule for the Retiree Health Benefits Fund; and reallocate $40 million pro-rata from the BlackRock passive account to the Plan's three international developed managers.
Part X	11-09	8/18/2010	Incorporated revisions approved in the Real Estate Policy into the Plan's Statement of Investment Objectives, Goals, and Guidelines.
Part XIII, Section 1	11-39	11/10/2010	Restricted the purchase of bonds issued by the City of Los Angeles, DWP, and its affiliates.
Part IV, Section 4.3	11-70	2/23/2011	GILS: Real Return Watch criteria added under "Schedule 1: Managers Watch Criteria."
Part VII	11-82	4/13/2011	Restricted T. Rowe from purchasing an issue in the portfolio if the manager holds 15% of the outstanding shares of that issuer company in all of its accounts.
Part II, Section 2.1	11-96 11-97	6/22/2011	Amended Plan's investment allocation targets and investment policy allocations.
Part II, Section 2.0.7 Part XV	12-07	7/27/2011	Approved Covered Calls Policy to be incorporated in the investment policy and attached to the RFP for the Covered Calls mandate.

Reference	Resolution Number	Approval Date	Explanation
Part XX	12-13	8/10/2011	Revised the Placement Agent Policy to better protect the Plan and reflect the market conditions that are representative of the Plan's investment commitments.
Part VI & Part XVIII, Benchmark	12-26 12-27	9/28/2011	Adopted a restructuring plan for the International Equity asset class. Adopted Russell 3000 + 300 basis points as the benchmark the overall performance of the private equity portfolio.
Part XVII Part XVIII	12-62	2/22/2012	Moved the target date for the inclusion of Covered Calls in the investment policy from October 1, 2011 to April 1, 2012.
Part XXI, attachment C	12-64	3/14/2012	Approved Timber investment guidelines and incorporated it in the investment policy.
Part XXI, attachment B	12-69	3/28/2012	Approved Commodities investment guidelines and incorporated it in the investment policy.
Parts VI & VII	12-78 12-79	5/9/2012	Adopted passive developed international equity investment guidelines. Adopted active value international equity guidelines.
Part IV, Section 4.3, schedule 1	12-82	5/23/2012	Added watch criteria for active & passive covered calls and passive international equity mandates.
Part XVI	12-89	6/13/2012	Approved the use of interest rate futures and option on government securities in the Global Inflation Linked Securities (GILS) mandate.
Part VI, Section 6.3.4	13-06	7/11/2012	Granted MFS an increase in firm-wide ownership allowance of 15% per company from 10%.
Part IV, Section 4.5.4	13-07	7/11/2012	Revised the policy to provide active high yield fixed income managers higher threshold for watch criteria.
Part IV, Section 4.7	13-12	8/8/2012	Updated securities lending investment guidelines.
Part IX, Section 9.2	12-23	9/26/2012	Restructured the Real Return asset class to increase exposure in the Hedge Fund of Funds (HFoF) allocation. Revised guidelines to include managers that utilized Convergent and Divergent investment strategies.
Part VI, Sections 6.2, 6.3, 6.4 and 6.5	13-27	10/10/2012	Allowed Active International Equity managers the use of put and call options to hedge currency positions.
Part X, Part XI	13-54	1/23/2013	Allowed for the use of an in-kind manager to manage/liquidate in-kind distributions from the Plan's private markets investment managers.
Part III	13-58	2/13/2013	Revised the IPS to include the investment manager's responsibility to replicate, both in structure and holdings, the Plan's portfolios in the Retirement Fund and Retiree Health Benefits Fund.
Part X	13-85	6/12/2013	Changed the target allocation range for Core real estate to 50-100%; widen the target allocation range for Value-Add real estate to 0-40; and widen the target allocation range for Opportunistic real estate to 0-20%.
Proxy Policy	14-05	8/14/2013	Amended the Proxy Policy to allow for automated proxy voting involving human rights issues, based on Glass Lewis' recommendation.
Securities Lending Agreement	14-06	8/14/2013	Amended the Securities Lending Program agreement to incorporate equity non-cash collateral including indemnification provisions.
Part X, Section 10.3	14-18	10/9/2013	Added guidelines for Ongoing Real Estate Manager Evaluation for open-end commingled funds and REIT managers and incorporate them.
Part X, Section 10.4	14-20	10/9/2013	Adopted the Global REIT Investment Guidelines and incorporate them into in the Real Estate section.
Part VI, Section 6.2	14-21	10/9/2013	Revised the format of the international equity investment guidelines and established manager-specific guidelines for the active growth international equity portfolio managed by Pyramis.
Part IV, Section 4.5.4	14-22	10/9/2013	Enhanced the language on watch status monitoring process for the Public Market Managers regarding material organizational changes.

Reference	Resolution Number	Approval Date	Explanation
Part II, Section 2.2.7 Part IX, Section 9.2	14-43 14-44 14-45	11/27/2013	Changed the allocation in the Covered Calls Investment Guidelines between Active and Replication accounts. Increased the allocation of the Covered Calls portfolios to 50% from 20% for the Active mandate and decreased the allocation for the Replication mandate to 50% from 80%. Adopted the revised manager specific Investment Guidelines for both the Convergent and Divergent Hedge Fund of Funds mandates.
Part IV, Section 4.5.4	14-60	1/22/2014	Added watch status criteria for Active Commodities.
Part IX, Section 9.2	14-63	2/12/2014	Adopted language to allow the Plan's Convergent HFoF manager additional three months to provide a full redemption of the Plan's investment, if not possible within 12 months.
Part XI, Section 11.3 Part IX, Section 9.2	14-70 14-73	3/26/2014	Changed the Private Equity guidelines to broaden the types of private equity investments the retirement Board can consider and reduce fees. Revised the guidelines for the Divergent HFoF mandate to reduce the lower the volatility range from 6%-9% to 4%-7% and clarified the language associated with the correlation requirement.
Part IV, Section 4.2 Part VII	15-41	12/10/2014	Revised the Fixed Income guidelines to reflect the structural changes made to the mandate.
Part IV, Section 4.2 Part VII	16-16	8/26/2015	Revised the Fixed Income guidelines to change the U.S. Bank Loans benchmark to the Credit Suisse Leveraged Loan Index from the Barclays U.S. Bank Loans Index. Revised the Fixed Income guidelines to allow for Principal Protection managers the ability to include 144a securities in their portfolios. Additionally, limit combined exposure to ABS and CMBS for these managers to 10%. Revised the Extended Global Credit Fixed Income guidelines to limit below investment grade holdings limit to 60% from 80%, to clarify allowable derivatives and limits, and to allow managers the ability to hold ETFs and Commingled Funds with specified limitations. Established portfolio guidelines for Bank Loan manager.
Part X, Section 10.4	16-32	10/28/2015	Revised the Global Real Estate Investment Trust guidelines to (1) limit the maximum size of a single security to the greater of 5% of the portfolio or 125% of the benchmark weight, expect in no case more than 10% of the portfolio; and (2) allow turnover up to 150%.
Part IX, Section 9.2	16-41	12/9/2015	Revised the GAM and Morgan Stanley guidelines to clarify that an underlying hedge fund investments cannot rely solely on commodities to take risk, but rather that commodity investments may be part of a more diversified strategy.
All Sections	17-12 17-13	9/14/2016	Comprehensive review of the SOIOGG with the objectives of simplification and redundancy reduction, clarification, and to ensure up-to-date industry best practices are being followed. Material changes include updates to the Long-Term Target Asset Allocation, updates to the watch list policy, and the addition of a separate hedge fund section. Section references prior to these changes may not be accurate.

All references in the above table refer to the version of the Investment Policy Statements in effect as of the stated approval date.