Public Safety Personnel Retirement System
Amended and Restated
Statement of Investment Policies
(Fiscal Year 2008-2009)

I. INTRODUCTION[1]

The Public Safety Personnel Retirement System ("System") is a multi-employer governmental plan acting as an independent agency of the State of Arizona to provide retirement and disability benefits for Arizona's public safety personnel and their beneficiaries and survivors. The System and two other governmental plans, the Elected Officials' Retirement Plan ("EORP") and Corrections Officer Retirement Plan ("CORP"), which collectively, are called the "Plans," are administered by a single, five member board of trustees called the "Fund Manager."

By law, the Fund Manager administers the Plans through the System's offices. The Plans have created a group trust called the "Arizona PSPRS Trust" (the "Trust") to commingle their assets for purposes of investment, and indeed, nearly all investments made by the Plans are made through the Trust. The EORP provides retirement and disability benefits for Arizona's jurists and elected officials and their beneficiaries and survivors. The CORP provides retirement and disability benefits for Arizona's corrections officers and their beneficiaries and survivors. Each of the Plans, as well as the Trust, publish annual reports on their operations and investment experience. The Plans and Trust operate on a fiscal year basis ending every June 30.

Each of the Plans is principally funded from three sources: employee contributions, employer contributions and investment returns. The benefits payable by each of the Plans differ, as do the demographics of their respective membership. The amount of employee contributions is a set percentage of each employee's gross pay. The amount of employer contributions payable annually is that actuarially required over an established period to keep the Plan in question fully funded after application of any investment returns (smoothed over a 7 year period) and any employee contributions received, less actual expenses for the year in question.

Two of the Plans--the System and CORP--apportion employer contribution liability by participating employer, such that each employer is responsible for the benefits payable to its particular employees. All EORP participating employers have to pay any unfunded liability for their participating employees prior to their participation in that plan. Then, the employers participating in the EORP share any future liabilities among all employers participating in that plan.

The Plans also provide a mechanism for annual cost of living ("COLA") increases of up to 4%. The enabling legislation of each of the Plans provides that half of any investment returns in excess of 9% per annum are placed into a COLA reserve for such Plan. The result is that if the Plans do not earn a return in excess of 9% per annum, no money is placed into a reserve for payment of annual COLAs, and once each Plan's COLA reserve is exhausted, no COLAs are paid until such time as the reserve is replenished to a sufficient degree that a COLA is payable. Likewise, the COLA mechanism results in half of all investment returns in excess of 9% per

[1] The material contained in Sections I and II of these Policies is not intended to, and shall not be construed as modifying, any terms specified elsewhere in these Policies (or as otherwise provided by law or in the Fund Manager's Governance Policies) and instead, is provided merely as a general overview of the Plans for persons not otherwise familiar with same.

annum being siphoned off into COLA reserves, and not being applied to reduce employer contribution liability.

The Fund Manager is required to exercise reasonable care, skill and caution, and invest and manage the Plans' assets, in accordance with an ordinary prudence standard, by considering the purposes, terms, distribution requirements and other circumstances of the Plans. The Plans' investments (through the Trust) must not only be "prudent," but comply with all applicable statutes, as well as all policies and procedures approved by the Fund Manager.

II. STATEMENT OF GOALS AND OBJECTIVES

The purpose of this Amended and Restated Statement of Investment Policy ("Investment Policy") is to set forth an appropriate set of goals and objectives for investment of the Plans' assets and to establish policies within which the Plans' Chief Investment Officer and the Plans' external investment managers may formulate and execute investment decisions on behalf of the Plans.

This Investment Policy shall apply to and control all of the Plans' and Trust's fiduciaries, including the members of the Fund Manager, the Administrator, the Plans' Chief Investment Officer and his investment staff, and all of the Plans' and Trust's retained professionals, as well as their external investment managers, in the course of their assistance in investing the assets of the Plans and Trust. This Investment Policy may be amended by the Fund Manager at any time.

The following shall be the Plans' investment goals and objectives:

1. Total return, consistent with prudent portfolio management, is the primary goal of the Plans and Trust. The total return target is 8.5% net of fees compounded annually, which considers the actuarial assumed rate of return of 8.5%. Total return, as used herein, includes income plus realized and unrealized gains and losses on Plan or Trust assets. In addition, assets of the Plans or Trust shall be invested to ensure that principal is preserved and enhanced over time. The time horizon for evaluating total fund investment performance shall be long term (three to five year time horizon).
2. The total return for the Plans and Trust should meet or exceed the Plans' Policy Index (as described in Appendix I). As a secondary comparison, the Plans' and Trust's total return shall also be compared with comparable public pension funds as represented by the Consultants Public Pension Fund peer group universe (ICC Universe of funds greater than $1B), with the understanding that the Plans' funded status and overall investment risk profile may differ from the average public pension fund in that universe.
3. The Plans' assets should equal their liabilities within any thirty year period. *See* A.R.S. § 38-843(B).
4. The Plans shall annually adjust the employer contribution rates based on the recommendations made by the Plans' actuary in annual actuarial valuations. The Plans shall determine a reasonable contribution rate necessary to fund benefits approved by the legislature and to the extent possible, then to reduce employer contribution rates over time.
5. The Plans shall strive to provide the opportunity for increased benefits for retirees as the legislature may from time to time enact through the systematic growth of the investments of the Plans' assets.

6. The Plans' and Trust's total portfolio risk exposure and total portfolio risk-adjusted returns will be evaluated regularly and on a rolling three and five year basis compared with a universe of similar funds to the Plans and Trust. Total portfolio risk exposure should generally rank in the mid-range of comparable funds. Risk-adjusted returns are expected to consistently rank in the top-half of comparable funds. The Fund Manager is aware that there may be deviations from these performance targets. Normally, results will be evaluated over a three- to five-year time horizon, but shorter-term results will be regularly reviewed and action taken if in the best interest of the Plans and Trust.

7. Investment managers should exceed the return of their designated benchmark index in appropriate time frames and should rank in the top-half of the appropriate asset class and style universe. Specific guidelines, time frames, benchmarks and performance requirements for the investment managers are specified in Appendices attached hereto.

8. While the Fund Manager has discretion to internally manage all of the assets and portfolios of the Plans and Trust, it may vest its investment staff with discretionary authority to manage up to half of the Plans' and Trust's assets. Conversely, the Fund Manager has discretion to have all assets of the Plans and Trust managed by external investment managers. The Chief Investment Officer shall strive to have at least 50% of the assets of the Plans and Trust externally managed.

9. For compliance purposes, the Plans and Trust shall monitor investment manager and total portfolio compliance with all of the Plans' and Trust's applicable policies, contractual obligations, statutory limitations and asset allocations. Compliance shall be reported to the Fund Manager on a monthly basis. Investment activities to restore compliance shall be completed in a timely and prudent manner with progress reported monthly to the Fund Manager until compliance has been restored.

10. Unless otherwise specified by the Fund Manager, the following benchmarks shall be used to evaluate the performance of the assets of the Plans and Trust:

ASSET CLASS BENCHMARKS

Asset Class	Benchmark	Asset Class Universe
U.S. Equities	Russell 3000	ICC Total Domestic Equity
International Equities	MSCI ACWI ex. U.S.	ICC Total Int'l Equity
Global Fixed Income	BC Aggregate	ICC Total Fixed Income
Global Real Estate	NCREIF	ICC Real Estate
Global Private Equity	Russell 3000 + 1%	ICC Private Equity
Credit Opportunities	Merrill Lynch B-BB Cons	ICC High Yield Universe
Absolute Return	T-Bills + 2%	HFRI Conservative FoF Universe
Real Assets	CPI +2%	
Cash	T-Bills	ICC Cash Universe

III. INVESTMENT POLICIES

The investments of the Plans and Trust shall recognize and generally follow the tenets of Modern Portfolio Theory as explained in the Third Restatement of Trusts, including analysis of investments from a total portfolio perspective and not from an isolated or individual perspective.

Periodically, as it deems appropriate, the Fund Manager shall adopt an asset allocation model for the Plans and Trust that seeks to fully achieve the primary investment objectives of the Plans and Trust. The overall capital structure targets and permissible ranges for eligible asset classes are detailed in Appendix I.

Subject to all Arizona statutory requirements, as well as this Investment Policy and any contractual limitations governing the relations between the Plans and Trust and their respective investment managers, the following investments are specifically authorized to be acquired by the Plans and Trust subject to any limitations set forth below or in any appendices to this Investment Policy:

1. **Global Publicly-Traded Equity** investments, *i.e.*, common stocks, convertibles (when exercised), warrants and rights traded on exchanges authorized by A.R.S. § 38-848(D), are permitted; subject to the provisions in Appendix I and Appendix II. Equity managers shall reserve or allocate no more than 10% of their portfolio to cash or cash equivalents. The investment managers should ensure that the securities to be purchased are traded on a U.S. exchange or an exchange in a country maintaining diplomatic relations with the United States and that such securities have sufficient liquidity and risk characteristics so as to be suitable for the Plans and Trust. The Plans and Trust shall not purchase corporate stock or exchange traded funds ("ETFs") on foreign exchanges which in the aggregate, exceed 20% of the Plans' and Trust's assets, based on cost.

2. **Global Publicly-Traded Fixed Income** investments traded on exchanges authorized by A.R.S. § 38-848(D) are permitted, subject to the guidelines in Appendix I, and may include U.S. Government obligations and obligations of any U.S. Government agency (each an "Agency"), mortgage backed securities ("MBSs"); including non-Agency mortgages and commercial mortgage-backed securities ("CMBSs"); Collateralized Mortgage Obligations ("CMOs"); asset-backed securities ("ABSs"); corporate bonds; Collateralized Debt Obligations ("CDOs"); Collateralized Loan Obligations ("CLOs"); Collateralized Bond Obligations ("CBOs"); structured notes; debentures; commercial paper; and municipal bonds. These limitations shall not require divestiture of any existing holdings of the Plans.

3. **Fixed Income Ratings:** The minimum quality rating of any publicly-traded fixed income issue held in an investment grade portfolio shall be "B" as rated by Moody's, or an equivalent rating agency, and the overall weighted average quality shall be "A" or higher. Fixed income securities held in a portfolio which fall below a "B" rating as specified above may be held in the portfolio if doing so is likely to prove economically advantageous to the Plans or Trust. Despite these minimum rating requirements, investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments regardless of the classifications provided by rating agencies. Unrated securities may be held in fixed income portfolios subject to the investment management requirements for such portfolios.

4. **Public Fixed Income Durations.** The average duration (interest rate sensitivity) of an actively managed fixed income portfolio shall be within +/- 50% of its applicable benchmark index.

5. **Public Fixed Income Concentration.** Fixed Income securities of an individual issuer, excepting the U.S. Government and U.S. Agencies and sovereign nations and their agencies, shall not constitute more than 5% of an investment manager's portfolio at any time, at market value unless previously or subsequently authorized by the Fund Manager.

6. **Equity Concentration.** Not more than 80% of the assets of the Plans and Trust shall be invested in corporate stock. Not more than 5% of the combined assets of the Plans and Trust shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by the U.S. Government or its Agencies or corporate stock issued by a bank or insurance company. The Plans and Trust shall not own more than 5% of the voting stock of any one corporation, but this limitation does not apply to membership interests in limited liability companies.

7. **Cash Reserves/Equivalents**. Investment managers may make and maintain reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Portfolios of such securities, other than U.S. Government issued debt, shall carry a minimum average rating the equivalent of S&P "A2" ratings. Cash reserves will be limited to cash equivalent instruments of maturities less than one year; the pooled cash fund of the Plans or Trust's custodian bank and any commingled funds in which the Plans or Trust invest shall be exempt from satisfying this requirement.

8. **Turnover**. There shall be no specific limitation to turnover. However, modest (as opposed to heavy) turnover is preferred.

9. **Alternative Investments.** Investments in alternative investments, such as private equity, venture capital, credit opportunities, real estate, absolute return, real assets, among others shall be made so as to create and maintain diversified asset specific portfolios. Diversification considerations shall include diversification by: manager, strategy, geography, product type, sub-asset classes, and vintage year; However, diversification shall also be viewed in the context of the total portfolio of the Plans and Trust. The Fund Manager shall approve the direct acquisition by the Plans and Trust of all alternative securities.

Ineligible Investments

Unless specifically approved by the Fund Manager or elsewhere in this Investment Policy, the following securities or strategies shall not be purchased for or employed by the Plans and Trust:

- Derivative instruments, except as permitted in the Derivatives Policy in <u>Appendix II</u> or as specifically provided in the investment management agreement ("<u>IMA</u>") approved by the Plans or Trust for a particular external investment manager. Unless otherwise authorized by the Fund Manager, the Chief Investment Officer shall not use derivative instruments to internally manage the Plans and Trust's public securities and fixed income portfolios described in <u>Appendix III</u> and <u>Appendix IV</u>.
- Lettered, legend or similar stocks.
- Non-taxable municipal securities, unless pricing anomalies in the marketplace suggest the likelihood of near-term capital gains when normal spread relationships resume.
- "Naked" short sales (i.e., shorting a security not owned).
- Any transaction prohibited by law, including any federal or Arizona statute.

Liquidity Requirements

External investment managers will be given adequate notice of the Plans' cash needs and an estimation of the Plans' liquidity requirements. External investment managers will be expected to manage their funds to provide for anticipated withdrawals without impairing the investment process.

Proxy Voting

Responsibility for the exercise of ownership rights through proxy solicitations shall normally rest with the investment managers. Voting rights shall be exercised strictly for the economic benefit of the Plans and Trust or as required by Arizona law. Investment managers shall annually report to the Plans and Trust standing policies with respect to proxy voting, including any changes that have occurred in those policies promptly after the occurrence of any such change.

Commingled Funds

Mutual funds and other types of commingled investment vehicles (such as commingled investment funds ("CIFs"), private equity funds, hedge funds, and ETFs, can provide lower costs and better diversification than can be obtained with a separately managed fund pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. The Fund Manager is willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds. Therefore, commingled investment vehicles selected by the Fund Manager shall be exempt from the policies and restrictions specified herein but shall otherwise satisfy all requirements imposed by law.

Derivatives and Alternative Investments

Unless otherwise provided in an external investment manager's IMA approved by the Fund Manager, the provisions in Appendix II shall govern the use of derivative instruments by external investment managers of the Plans and Trust.

IV. ROLES AND RESPONSIBILITIES

Fund Manager of PSPRS

The Fund Manager's responsibilities are specified in the Fund Manager's Governance Policies and A.R.S. § 38-848 and -848.03. Among other things, the Fund Manager is responsible for adopting this Investment Policy. In accordance with the Plans' enabling legislation, the Fund Manager has delegated to the Plans' Administrator authority to prudently invest the assets of the Plans and Trust in accordance with this Investment Policy and applicable law, and the Administrator, in turn, has delegated such authority to the Plans' Chief Investment Officer, subject to the supervision of the Administrator and ultimately, the Fund Manager. Despite such delegation of authority, the Fund Manager has reserved authority to approve the hiring and firing of the Administrator, Chief Investment Officer, custodian bank and all external investment managers (including those for alternative investments) and professional consultants, as well as to make substantive changes to their operative contracts with the Plans and Trust.

The Administrator

The Fund Manager has vested the Plans' Administrator with all powers authorized by law or bestowed upon the Administrator in (i) the Fund Manager's Governance Manual, or (ii) motions or resolutions approved by the Fund Manager, including the authority to prudently invest the assets of the Plans and Trust in accordance with this Investment Policy and enter into contracts with external investment managers approved by the Fund Manager. The Administrator, in turn, has delegated his/her authority to invest the assets of the Plans and Trust, subject to these Investment Policies, and to enter into investment contracts of any kind, including those with external investment managers, to the Plans' Chief Investment Officer, subject to the supervision of the Administrator and ultimately, the Fund Manager.

Chief Investment Officer

The Administrator has delegated authority to the Chief Investment Officer of the Plans and Trust to prudently invest the assets of the Plans and Trust in accordance with this Investment Policy and applicable law. Such authority includes authority to enter into investment contracts of any kind, including those with external investment managers, so long as such contracts comply with the requirements of this Investment Policy and are approved by the Fund Manager. The Chief Investment Officer may retain professional staff to assist the Chief Investment Officer to perform his/her duties, subject to the approval of the Administrator and Fund Manager. The Chief Investment Officer is responsible for advising the Administrator and Fund Manager about all material investment decisions affecting the Plan and Trust, and providing the Fund Manager and Administrator with regular guidance regarding strategies to prudently grow the assets of the Plans and Trust. The Chief Investment Officer regularly monitors and reports upon all of the investments of the Plans and Trust to keep the Administrator and Fund Manager advised of all developments and prudent strategies regarding same. The Chief Investment Officer shall have authority to make the discretionary investments described in Appendices III and IV hereto (or any others added from time to time to this Investment Policy), subject to the limitations described therein and all other limitations imposed by this Investment Policy, the Fund Manager, the Administrator, and applicable law.

Investment Consultant to the Fund Manager

One or more external investment consultants shall assist the Fund Manager in developing and modifying the Plans' and Trust's investment policy objectives and guidelines, including the development of asset allocation strategies, the development of derivatives policies, recommendations on long term asset allocation and the appropriate mix of investment manager styles and strategies. When requested and pursuant to contract, the external investment consultant(s) shall also provide assistance in manager searches and selection, and in investment performance calculation, evaluation, and analysis. Each external investment consultant shall provide timely information on investment strategies, instruments, managers and other related issues, as requested by the Fund Manager from time to time.

The Fund Manager's external investment consultant(s) shall provide performance evaluation reports to the Fund Manager on a quarterly basis. Reports will include absolute and relative performance of each of the investment managers and the Plans' or Trust's total assets. The consultant(s) will utilize meaningful market indices and peer group universe for comparisons. The Fund Manager's investment consultant(s) shall also provide specialty reporting, and analysis of the Plans and Trust's overall investment program for portfolio risk.

Investment Consultants To The Chief Investment Officer

Upon the Fund Manager's authorization, the Chief Investment Officer may retain one or more consultants to assist the Chief Investment Officer to evaluate certain securities, derivatives and asset classes being considered for investment or divestment by the Plans and Trust.

External Investment Managers

Unless otherwise authorized by the Fund Manager, each external investment manager retained by the Fund Manager to manage portfolios for the Plans or Trust shall be responsible first for complying with that manager's IMA as approved by the Fund Manager and second, for complying with all applicable portions of this Investment Policy that do not otherwise conflict with that manager's IMA. Further, each external investment manager retained by the Fund Manager to manage portfolios for the Plans or Trust shall:

1. Meet with the Fund Manager upon request;
2. Submit written reports to the Chief Investment Officer and the Fund Manager's external investment consultant at least quarterly;
3. Work with the Plans' and Trust's custodian bank to verify monthly accounting reports;
4. Except for any portion of its IMA which conflicts with this Investment Policy, confirm in writing to the Plans and Trust the external investment manager's intention to comply with the remainder of this Investment Policy as it currently exists and may be amended, from time to time, except that if such manager is unable to comply with any amendments to the Investment Policy, such manager will promptly so advise the Chief Investment Officer and shall either take reasonable measures to redeem those portfolios of the Plans or Trust entrusted to its care or seek an exemption from the Fund Manager to the applicable amended policies.

Subject to this Investment Policy and the Derivatives Policy specified in Appendix II, or unless otherwise authorized by the Fund Manager, external investment managers may be granted a power of attorney from the Plans or the Trust, as applicable, to execute in the name of the Plans or the Trust, as applicable, certain instruments for the Plans and Trust, including without limitation, derivative contracts and instruments, except that, unless otherwise authorized by the Fund Manager, no such power of attorney shall subject the Plans or Trust to liability in excess of their committed capital to the investment in question, nor shall such power of attorney be employed to substantively amend the economic rights or interests of the Plans or Trust in said investment without a vote of the owners of such investment.

In the event an external investment manager deems as confidential the investment management agreement and any guidelines governing the portfolio that investment manager is administering for the Plans or Trust, said investment management agreement and/or guidelines shall be considered not a public record as specified in A.R.S. § 38-848(S) and shall not be disclosed to the public unless authorized by the Plans or Trust.

Custodian Bank

In order to maximize the returns of the Plans and Trust, no money should be allowed to remain idle. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested or reinvested promptly.

The Plans' or Trust's custodian bank(s) will be responsible for performing the following functions:

1. Accept daily instructions from the Chief Investment Officer and his/her designated staff.
2. Notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings.
3. Resolve any problems that staff may have relating to the custodial account(s).
4. Safekeeping of securities.
5. Collection of interest and dividends.
6. Daily cash sweep of idle principal and income cash balances.
7. Processing of all transactions.
8. Collection of proceeds from maturing securities.
9. Disbursement of all income or principal cash balances as directed.
10. Collect asset values from pooled accounts, such as from hedge funds and private equity investments and other asset accounts not custodied by the bank for inclusion in the Plans' and Trust's comprehensive monthly valuation reports.
11. Providing monthly statements by investment account and a consolidated statement of all assets.
12. Working with the Fund Manager's investment consultant and the Plans' accountants and other consultants to ensure accuracy in reporting.
13. Provide written statements revealing monthly reconciliation of custody and investment managers' accounting statements.
14. Filing claims for the Plans and Trust in securities class actions affecting their interests.
15. Other services as directed by the Chief Investment Officer, Administrator and the Fund Manager.

V. SPECIAL CONSIDERATIONS FOR PRIVATE EQUITY AND OTHER ALTERNATIVE ASSET INVESTMENTS

Unless otherwise instructed by the Fund Manager:

1. **Late Fee Assessments**. All capital authorized for investment by the Fund Manager in any private equity, venture capital, real estate or other alternative asset fund shall be invested in such fund without deducting from the amount of such authorized investment any late fee, additional fee, "catch-up" fee or other sums howsoever characterized that are assessed by the fund as a result of the Plans' or Trust's participation in the fund after the fund's initial closing, such that the Plans and Trust shall be authorized to pay the amount of any late fee, additional fees, catch-up fees or the like in addition to the amount authorized by the Fund Manager for such investment. Such a policy will enable more of the money of the Plans and Trust to be put to work in each investment. As an hypothetical illustration, if the Fund Manager were to authorize $75M to be invested in private equity Partnership A, and because the Plans or Trust were investing in Partnership A at its last closing, Partnership A assessed the Plans or Trust a "late fee" equal to $250,000, the Plans and Trust would not back the late fee out of the $75M authorized such that the Plans' and Trust's net commitment to Partnership A was $74,750,000. Instead, the Plans and Trust would commit the full $75M as their capital commitment to Partnership A, and pay the $250,000 fee in addition to the $75M authorized for investment in Partnership A.

2. **Attorneys' Fee and Investigation Expenses**. All capital authorized for investment by the Fund Manager in any private equity, venture capital, real estate or other alternative asset fund shall be invested in such fund without deducting from the amount of such authorized

investment any attorneys' fees, investigation expenses or other costs incurred by the Plans or Trust to perform due diligence in connection with investment in such fund. Such a policy will enable more of the money of the Plans and Trust to be put to work in each investment. As an hypothetical illustration, if the Fund Manager were to authorize $75M to be invested in private equity Partnership A, and if in connection with such investment, the Plans and Trust had incurred legal fees and investigation expenses of $30,000, the Plans and Trust would not back such fees and expenses out of the $75M authorized such that the Plans' and Trust's net commitment to Partnership A was $74,970,000. Instead, the Plans and Trust would commit the full $75M as their capital commitment to Partnership A, and bear the $30,000 in fees and expenses in addition to the $75M authorized for investment in Partnership A.

3. **Investor Borne Management Fees**. All capital authorized for investment by the Fund Manager in any private equity, venture capital, real estate or other alternative asset fund shall be invested in such fund without deducting from the amount of such authorized investment any management fees that are payable by an investor in addition to each investor's capital commitment, such that the Plans and Trust shall be authorized to pay such management fee in addition to the amount authorized by the Fund Manager for such investment. Such a policy will enable more of the money of the Plans and Trust to be put to work in each investment. As an hypothetical illustration, if the Fund Manager were to authorize $75M to be invested in private equity Partnership A, and if Partnership A required that each investor annually pay a management fee to Partnership A for the 10 year estimated life of the partnership equal to $200,000, and such management fee would be payable in addition to the Plans' and Trust's capital commitment, the Plans and Trust would not back the total estimated management fee ($2M) out of the $75M authorized for investment such that the Plans' and Trust's net commitment to Partnership A was $73M. Instead, the Plans and Trust would commit the full $75M as their capital commitment to Partnership A, and pay the $200,000 management fee each year in addition to the $75M authorized for investment in Partnership A.

4. **Foreign Currency Conversions**. All investments by the Plans or Trust in any private equity, venture capital, real estate or other alternative asset funds which are required to be made in a foreign currency shall be converted from U.S. Dollars to the applicable foreign currency on a date determined by the Chief Investment Officer, and from that date forward, the authorized commitment for such shall be the value of the commitment in the subject foreign currency on the date of conversion (and as typically stated in the applicable investment subscription agreement) and the Chief Investment Officer shall account for draws on the Plans' or Trust's capital commitment to the investment in the applicable foreign currency.

5. **Unrelated Business Taxable Income**. Pursuant to the advice of the Fund Manager's counsel, while the Plans and Trust take the position they are exempt from paying any tax on unrelated business taxable income ("UBTI") generated by the Plans' or Trust's investments, the Plans and Trust have a strong preference to invest in private equity, venture capital, real estate or other alterative asset funds or ventures which take active measures to "block" and thereby minimize receipt by the Plans or Trust of UBTI, even though such blocking measures might slightly reduce the returns generated from such investment. However, in the event any measures employed to block or mitigate UBTI are expected to reduce the returns of the Plans or Trust in the investment at issue more than 1% per annum, the Chief Investment Officer, in consultation with the Plans' and Trust's counsel, is authorized to forgo use of such blocking mechanisms.

VI. OTHER CONSIDERATIONS

It is the intent of the Fund Manager to revise this Investment Policy to reflect modifications and revisions to the Plans' enabling legislation, which may be enacted from time to time. It is also the policy of the Fund Manager to review the terms of this Investment Policy at least once per year and to communicate any necessary changes to the Administrator, Chief Investment Officer, all applicable external investment managers. External investment managers are urged to review the Plans' enabling legislation to make sure they are aware of any applicable amendments to same.

Unless otherwise provided in an external investment manager's IMA that has been approved by the Fund Manager, this Investment Policy provides mandatory rules for the Plans' and Trust's external investment managers to follow. Should any external investment manager believe that this Investment Policy is unduly restrictive or inappropriate, such manager shall so advise staff and the Fund Manager.

VII. IMPLEMENTATION

This Investment Policy shall be effective on the date it is approved by the Fund Manager as specified below, and upon the effective date of this Investment Policy, all prior investment policies of the Plans shall be revoked. The terms of any addenda of this Investment Policy are hereby incorporated into and made a part of this Investment Policy by this reference as if fully recited herein. Should any conflict arise between the terms of this Investment Policy and any of its addenda, the terms of the applicable addenda shall control. If there shall arise any conflict between the terms of this Investment Policy and the Plans' Governance Policies, the terms of this Investment Policy shall control. All monies invested for the Plans or Trust after the adoption of this Investment Policy shall conform to this Investment Policy, unless the Fund Manager agrees otherwise.

This Investment Policy has been adopted by the Fund Manager at its meeting on February 25, 2009.

By: ______________________________
Hon. R. Carter Olson, Chairman

By: ______________________________
James M. Hacking, Administrator

Public Safety Personnel Retirement System

ASSET ALLOCATION POLICY

In order to have a reasonable probability of achieving the target return at an acceptable risk level, the Plans and Trust have adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on a quarterly basis and will be readjusted when an asset class weighting is outside its target range.

ASSET CLASS	TARGET %	TARGET RANGE %	TARGET BENCHMARK
EQUITY			
Domestic Equity	*30*	*20-40*	*Russell 3000*
International Equity	*20*	*13-27*	*MSCI ACWI ex. U.S.*
FIXED INCOME	20	15-25	Barclays Capital Aggregate
ALTERNATIVES			
Real Estate	*8*	*4-12*	*NCREIF*
Private Equity	*8*	*3-12*	*Russell 3000 + 1%*
Credit Opportunities	*8*	*0-12*	*ML BB-B 2% Cons*
Absolute Return	*0*	*0-10*	*T-Bills + 2%*
Real Assets	*5*	*0-10*	*CPI + 2%*
CASH			
Short Term	*1*	*0 – 5*	*90-Day T-Bill*

Asset Allocation Within Ranges

The Plans' Chief Investment Officer shall adjust asset allocation within ranges after consideration of the advice of the Fund Manager's external investment consultant(s) and any other consultants retained by the Fund Manager, Trust or Plans. This should be accomplished with views toward both improving investment returns and towards preservation of capital. Actual asset class allocations will be reported to the Fund Manager on a monthly basis. When large and rapid changes to asset allocation within target ranges are contemplated (a reallocation of greater than 5% of the total portfolio within 30 days), it must be presented to and approved by the Fund Manager in advance.

Plans' Policy Index

The Plans' Policy Index ("Policy Index") is a custom benchmark designed to indicate the returns that a passive investor would earn by consistently following the asset allocation targets set forth in this Appendix I. It is useful in separating the impact of investment policy from execution of the investment strategy in evaluating the performance of the Plans' and Trust's investment program. The Policy Index is calculated by multiplying the target commitment to each asset class of the Plans or Trust by the rate of return of the appropriate market index, as listed above, on a monthly basis.

Rebalancing

The Fund Manager's external investment consultant(s) will review the Plans' and Trust's asset allocation at least quarterly to determine if the asset allocation is consistent with the exposure ranges described herein. Readjustments to asset classes falling outside their prescribed ranges shall be accomplished by the Chief Investment Officer in a timely manner with progress reported regularly to the Fund Manager until the exposures are within the applicable ranges. The Chief Investment Officer will consider market conditions and transaction costs, as well as any other relevant factors when rebalancing assets in the Plans' or Trust's portfolios.

APPENDIX II

Public Safety Personnel Retirement System

DERIVATIVES POLICY

A. Objectives

Unless the Fund Manager otherwise directs, this derivatives policy ("Derivatives Policy") identifies and permits external investment managers of the Plans and Trust to deploy common derivative investments and strategies which are consistent with applicable law and the Investment Policy. This Derivatives Policy also requires the external investment managers of the Plans and Trust to follow certain controls, documentation and risk management procedures when employing derivatives. Derivatives may be employed by the Plans' and Trust's external investment managers based on an analysis by the Plans' Chief Investment Officer that the use of such derivatives will have a positive impact on the Plan's or the Trust's ability to manage its underlying assets and liabilities. Unless otherwise authorized by the Fund Manager, the Chief Investment Officer and his/her staff shall not employ derivatives in the management of the Plans or Trust's internally managed portfolios, except that nothing in this Derivatives Policy shall preclude the Chief Investment Officer or his/her investment staff from purchasing ETFs, CIFs, mutual funds, or commingled securities authorized by the Fund Manager (or any Appendix to the Investment Policy) which technically, might be characterized as derivatives.

B. Definition and Classification of Derivatives

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

Derivative Contracts. The following derivative contracts are authorized derivatives to be entered into by the Plans' and Trust's external investment managers on behalf of the Plans and Trust:

a) Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments

b) Option-based derivatives, including put options, call options, swaptions, interest rate caps and floors, and similar instruments

C. Allowed Uses of Derivatives

Derivative Contracts

a) **Hedging.** To the extent that the non-derivative component of a Plan's or the Trust's portfolio is exposed to clearly defined risks and derivative contracts exist which can be used to prudently reduce those risks, to the extent authorized by an external investment manager's IMA with the Plans and Trust, such manager is permitted to use derivatives contracts for hedging purposes, including cross-hedging of currency exposures, subject to the documentation requirements below.

b) **Creation of Market Exposures.** If specifically authorized by their applicable IMA with the Plans or Trust, external investment managers of the Plans and Trust may use derivatives to replicate the risk/return profile of an asset or asset class.

c) **Management of Country and Asset Allocation Exposure.** External investment managers of the Plans and Trust may use derivative contracts to change the exposure of their portfolio to different countries and/or asset classes, so long as their IMA authorizes such strategies.

D. Prohibited Uses of Derivatives

Any use of derivatives not referenced in section C is prohibited without the prior written approval of the Fund Manager. The Plans' and Trust's external investment managers are encouraged to solicit such approval if they believe the list in section C is too restrictive. By way of amplification, it is noted that the following two uses of derivatives are prohibited in any portfolio of the Plans and Trust, unless specifically authorized by the Fund Manager:

1. **Leverage.** Derivatives shall not be used to magnify exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a manager's IMA if derivatives were not used. Derivatives shall not be employed so as to subject the Plans or Trust to liability in excess of their committed capital to any investment.

2. **Unrelated Speculation.** Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's IMA if created with non-derivative securities.

E. Portfolio-Level Risk Control Procedures and Documentation Requirements

1. Counterparty Credit Risk For Non-Publicly Traded Derivatives

External investment managers are required to measure and monitor exposure to counterparty credit risk. All counterparties contracting directly with the Trust or Plans must have commercial paper credit ratings of at least "A2" or its equivalent by at least one nationally recognized rating agency at the time the related derivative is entered into. If the term of the derivative contract exceeds one year, an analysis shall be conducted to determine the counterparty's long-term rating and risk exposure. Documentation relating to each derivative shall require that upon the downgrade to a specified level or withdrawal of the rating of such counterparty, the Plans, the Trust or the external investment manager, as applicable, may elect to terminate the derivative or to cause the related counterparty to collateralize its obligations under such derivative with cash or securities acceptable to the Plan, the Trust or the external investment manager (on behalf of the Plans or the Trust) at levels acceptable to the Plans, the Trust or the external investment manager (on behalf of the Plans or the Trust). Counterparty exposure should be evaluated with respect to concentration and diversification.

2. Ongoing Monitoring of Risk Exposures

The term and other risk exposure limits specified in this Derivatives Policy, the Investment Policy or a particular external investment manager's IMA with respect to investments made by that investment manager for the Plans or Trust are expected to be satisfied on an ongoing basis. Thus, the Chief Investment Officer and external investment managers must monitor changing risk exposures.

3. Valuation of Holdings

External investment managers employing derivative strategies and the custodian shall provide the Plans and the Trust with pricing policies, including a list of sources used to value the Plans' or the Trust's holdings. The Plans and the Trust should be notified of any exceptions to these policies. The custodian is required to obtain prices independent of the external investment manager, or to notify the Plans and the Trust that independent prices are not available.

At least monthly, external investment managers employing derivatives shall reconcile the valuations of all of their derivatives positions with the custodian.

4. Quarterly Reporting

Each external investment manager using derivatives for the benefit of the Plans and Trust shall submit to the Plans and the Trust, within thirty days of the end of each quarter, a written report with the following information:

a) A list of all derivative positions of the Plans and the Trust as of quarter-end (and those terminated since the last report) including, without limitation, the related notional amount, the term and the rating of the related counterparty.

b) An explanation of any significant pricing discrepancies between the investment manager and custodian bank.

c) An explanation of any events of non-compliance with respect to any aspect or element of this Derivatives Policy, the Investment Policy or the IMA of said manager with the Plans and/or Trust.

5. Execution of Derivatives Documentation

Subject to the terms of this Derivatives Policy, the Investment Policy and any IMA governing an external investment manager's contract with the Plans and/or Trust, an external investment manager will be authorized to execute derivatives on behalf of a Plan or the Trust in connection with the applicable investment strategies authorized by the Plans or Trust for such investment manager. Derivatives executed by the Plans, the Trust or the external investment managers (on behalf of the Plans or the Trust) must include all provisions required to be in contracts executed by the Plans or the Trust pursuant to Arizona law.

F. Guidelines for Use of Pooled or Commingled Funds which Employ Derivatives

Mutual funds, CIFs, ETFs and other types of commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with separately managed funds pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. The Plans and the Trust are willing to accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled funds. Therefore commingled investment vehicles (such as mutual funds, CIFs or ETFs) are exempt from all policies specified above *unless the Fund Manager concludes*:

The commingled fund's use of derivatives is so inconsistent with the spirit of this Derivatives Policy that value to be gained by investment in the fund is outweighed by the risks of such investment.

APPENDIX III

Public Safety Personnel Retirement System

INVESTMENT MANAGER REQUIREMENTS FOR INTERNALLY MANAGED PUBLIC EQUITIES PORTFOLIO

This Appendix III governs the Chief Investment Officer's management of the publicly-traded equities portfolio of the Plans and Trust. Subject to the Plans' and Trust's overall asset allocation limits and other provisions set forth in the Investment Policy and Appendix I thereto, the Chief Investment Officer is delegated authority to use the assets of the Plans and Trust to directly purchase and sell publicly-traded equity securities for the Plans and Trust, subject to the following guidelines and limitations:

- Benchmark(s): U.S. Equities *Russell 3000*

  International Equities *MSCI ACWI ex. U.S.*

- U.S. direct equity portfolio investments shall be components of the Standard and Poors 500 index,

- Stocks under consideration for purchase in the U.S. direct equity portfolio shall be covered by at least 4 analysts.

- Not more than 80% of the assets of the Plans and Trust shall be invested in corporate stock. Not more than 5% of the combined assets of the Plans and Trust shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by the U.S. Government or its Agencies or corporate stock issued by a bank or insurance company. The Plans and Trust shall not own more than 5% of the voting stock of any one corporation, but this limitation does not apply to membership interests in limited liability companies.

- In accordance with A.R.S. § 38-848.03(F), the Chief Investment Officer and his/her investment staff may not exercise discretion to acquire securities or make investments that exceed fifty percent (50%) of the assets of the Plans and Trust, measured at cost.

- Direct equity holdings sector weighting are limited to no more than 4 percentage points above or below the S&P 500 ten GICS sector weights at market.

- Internally managed public equities positions shall not include: Puts, calls straddles or other option strategies, and the Chief Investment Officer shall not employ derivatives with respect to the securities managed by the Chief Investment Officer pursuant to this Appendix III, except that, the Chief Investment Officer or his/her investment staff shall not be precluded from purchasing or selling ETFs or CIFs, mutual funds or other commingled securities authorized by the Fund Manager which technically, might be characterized as derivatives.

- Broad based, diversified ETFs and CIFs and mutual funds may be purchased for domestic and international allocations.

- Individual positions in the U.S. direct equity portfolio shall not exceed the greater of:

  a) 1.5 times the index weight of that issue's weighting in the S&P 500 at market value or
  b) That issue's weighting in the S&P 500 plus 50 bps in the Plans or Trusts equities portfolio.

- Asset Allocation Targets and Ranges:

  The Plans' and Trust's internally managed equity portfolio shall maintain compliance with the following total portfolio targets and ranges for equities:

Domestic Equity Target	30%	Ranges:	20-40%
International Equity Target	20%	Ranges	13-27%

- At month end, the Chief Investment Officer shall issue a written report to the Fund Manager describing:
  (a) All public equity holdings of the Plans and Trust
  (b) All public equity transactions for the previous month
  (c) The percentage of the Plans' or Trust's portfolio allocated to domestic equities
  (d) The percentage of the Plans' or Trust's portfolio allocated to international equities
  (e) S&P GICS sector weights of the domestic direct equities
  (f) Compliance with the less than concentration requirements above

  These reports shall be verified by the Plans' compliance officer.

  Any violations of any asset allocation or concentration limits (or any other variance from the authority specified in this Appendix III) shall be corrected within 30 days taking into account current market conditions in an effort to minimize negative performance impact to the Plans and Trust

  Unless otherwise authorized by the Fund Manager, the Chief Investment Officer and his/her staff shall not employ derivatives in the management of the Plans or Trust's internally managed portfolios, including those portfolios described in this Appendix III, except that nothing shall preclude the Chief Investment Officer or his/her investment staff from purchasing ETFs, CIFs, mutual funds, or commingled securities authorized by the Fund Manager (or any Appendix to the Investment Policy) which technically, might be characterized as derivatives.

APPENDIX IV

Public Safety Personnel Retirement System

INVESTMENT MANAGER REQUIREMENTS FOR INTERNALLY MANAGED FIXED INCOME PORTFOLIO

This Appendix IV governs the Chief Investment Officer's management of the publicly-traded fixed-income portfolio of the Plans and Trust. Subject to the Plans' and Trust's overall asset allocation limits and other provisions set forth in the Investment Policy and Appendix I thereto, the Chief Investment Officer is delegated authority to use the assets of the Plans and Trust to directly purchase and sell publicly-traded fixed-income securities for the Plans and Trust, subject to the following guidelines and limitations:

- Benchmark(s): *BC (Lehman) Aggregate*
- Fixed income investments should emphasize marketability, and be diversified by issuer, sector and quality.
- Fixed Income holdings may be in diversified fixed income based ETFs or CIFs. The Chief Investment Officer shall provide a written report on a monthly basis of the characteristics and holdings of such ETFs or CIFs, but such investments are not otherwise subject to the investment restrictions herein.
- Not more than five percent (5%) of the Plans' or Trust's total assets(at market value) shall be invested in bonds issued by any one institution, agency or corporation with the exception of bonds issued as direct obligations of, and fully guaranteed by the U.S. Government, and bonds rated AAA and issued by any U.S. Agency.
- The internally managed fixed income portfolio shall have a minimum weighted average credit rating of "A3/A-." The joint venture real estate debt held in the fixed income portfolio and previously authorized by the Fund Manager shall not be considered in the calculations of the weighted average quality rating or minimum quality limitations.
- At least seventy five percent (75%) of the internally managed fixed income portfolio must be rated "A3/A-" or above, evaluated and rated at market value at the time of purchase.
- Publicly-traded fixed income investments must have a minimum quality rating of "Baa3/BBB-" at purchase. However, fixed income investments which fall below this rating may be retained if the Chief Investment Officer determines that such action is in the economic interest of the Plans and Trust. The portion of the internally managed fixed income portfolio which is rated below "Baa3/BBB-" must be less than five percent (5%) of the Internally Managed Fixed Income Portfolio.
- Investments in structured fixed income are limited to Collateralized Mortgage Obligations (CMOs), Collateralized Bond Obligations (CBOs), Collateralized Debt Obligations

(CDOs), Asset Backed Securities (ABSs), and Collateralized Loan Obligations (CLOs). Investments in other fixed income derivatives may only be made with the prior approval of the Fund Manager.

- In accordance with A.R.S. § 38-848.03(F), the Chief Investment Officer and his/her staff may not exercise discretion to acquire securities or make investments that exceed fifty percent (50%) of the assets of the Plans and Trust, measured at cost.

- Nonpublicly-traded, nonrated fixed income securities may be held in the internally managed fixed income portfolio if the inclusion of such securities in the portfolio is authorized by the Fund Manager. The percentage of such securities as part of the internally managed fixed income portfolio shall be reported to the Fund Manager monthly, in writing, by the Chief Investment Officer.

  Unless otherwise authorized by the Fund Manager, the Chief Investment Officer and his/her staff shall not employ derivatives in the management of the Plans or Trust's internally managed portfolios, including those portfolios described in this Appendix IV, except that nothing shall preclude the Chief Investment Officer or his/her investment staff from purchasing ETFs, CIFs, mutual funds, or commingled securities authorized by the Fund Manager (or any Appendix to the Investment Policy) which technically, might be characterized as derivatives.

APPENDIX V

Public Safety Personnel Retirement System

SECURITIES LENDING POLICY

The Chief Investment Officer may continue the current securities lending program until such time as the Fund Manager determines otherwise. The Chief Investment Officer will continue to monitor the risks associated with the securities lending program and will provide periodic reports to the Fund Managers about same.

Public Safety Personnel Retirement System

INVESTMENT MANAGER REQUIREMENTS FOR
Opportunistic Credit Portfolios

The existing practices for opportunistic credit portfolios shall be maintained until such time as the Fund Manager determines otherwise.

Public Safety Personnel Retirement System

INVESTMENT MANAGER REQUIREMENTS FOR
Private Equity Portfolios

The existing practices for private equity portfolios shall be maintained until such time as the Fund Manager determines otherwise.

Public Safety Personnel Retirement System

INVESTMENT MANAGER REQUIREMENTS FOR Real Assets Portfolios

The existing practices for real assets portfolios shall be maintained until such time as the Fund Manager determines otherwise.

APPENDIX IX

Public Safety Personnel Retirement System

INVESTMENT MANAGER REQUIREMENTS FOR
Real Estate Portfolios

The existing practices for real estate portfolios shall be maintained until such time as the Fund Manager determines otherwise.

APPENDIX X

Public Safety Personnel Retirement System

INVESTMENT MANAGER REQUIREMENTS FOR
The Barclays Global Investors Frontier Market Fund