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City of Austin Employees' Retirement System

City of Austin Employees' Retirement System

Board Approved Policy

Policy:	**I-1**
Subject:	Statement of Investment Policies and Objectives
Review Committee:	Investment Committee
Adopted:	July 1, 1980
Date Updated:	***[Re-adopted without change – November 25, 2003]*** November 19, 2002 March 21, 1990 November 22, 1994 November 30, 1999 September 26, 2000

Signature of Chairperson: Cathy Rodgers

Cathy Rodgers

11/25/03

Date

Adopted November 19, 2002

Statement of Investment Policies and Objectives

for

City of Austin Employees' Retirement System
(COA ERS)

Table of Contents

Statement of Investment Policies and Objectives
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Original Adoption Date: 11/30/99

I. STATEMENT OF POLICY

Purpose

This document (including Appendices I – VIII) is the official policy governing the investment practices of the City of Austin Employees' Retirement System (the "System"). The policies in this document (the "Investment Policies") have been adopted by the Board of Trustees (the Board), which has the fiduciary duty of overseeing the pension fund investments (the "fund"). The policies are not to be deviated from by any responsible party without the prior written permission of the Board. All previous System investment policies and objectives are superseded by this document. Any revisions to this document will be promptly supplied to the appropriate parties in written format.

Investment Goals

The purpose of the Fund is to accumulate the financial reserves necessary to provide for the retirement or pensioning of eligible members of the City of Austin Employees' Retirement System and their beneficiaries. Given this purpose, the System's liquidity requirement, and the source and predictability of contributions, the Board elects to assume normal pension fund risk in pursuing an investment program. A primary objective of the investment management of the Fund is to emphasize consistency of growth in a manner that protects the Fund from excessive volatility in market value from year to year.

The Board, with consultation, advice and assistance from the investment consultant, will use the Fund's asset allocation as the primary tool to achieve this goal. As this is a long-term projection and investments are subject to short-term volatility, the main investment review focus of the Board will be to emphasize total return of the Fund versus its absolute and relative targets, each asset segment's composite performance versus appropriate market benchmarks, and each money manager's performance versus a specified asset class style benchmark and style peer comparisons over relevant time periods. Each manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style, add incremental value after costs and provide investment management in compliance with this document and the manager's contract with the System.

Investment Philosophy

The Fund is a permanent one.

The benefit obligations of the System must be met on a timely and regular basis.

There is currently no expectation of need for significant liquidity from the Fund's portfolio.

The Fund shall be considered a total return fund, with appropriate recognition given to both current income and capital appreciation. Taxes shall not be a consideration. As such, market value will be the only relevant basis for investment value.

In the long run, ownership (equity investment) is a prudent investment vehicle for preservation of real values. The purpose of fixed income investments is to protect the principal and provide a measure of stability to the portfolio.

As a long-term fund with a commitment to funding the full benefits of the participants, cash flow considerations shall take precedence over the liability stream when considering overall asset allocation of fund assets.

Identification of Duties

There are several parties acting as fiduciaries regarding the investment program for the Fund. This document will set out specific duties and responsibilities for the investment-related parties as they carry out their specific roles towards achieving the objectives of the Fund.

II. INVESTMENT RESPONSIBILITIES

Board of Trustees

The Board of Trustees (the "Board") has the fiduciary responsibility for managing the investment process. In fulfilling this responsibility, the Board will establish and maintain investment policies and objectives. Within this framework, the Board will select, contract with, monitor, and evaluate the investment consultant, investment managers, bank custodian, and other parties to ensure that actual results meet objectives.

Investment Consultant

The investment consultant's duty is to render competent, professional advice and assistance and to work with the Board with respect to the investment process. This includes meeting regularly with the Board to provide perspective as to the Fund's goals, structure and the investment management team as well as the progress being made in fulfilling each. The consultant will advise, consult and work with the Board to develop and maintain a properly diversified portfolio.

The investment consultant will perform its duties and obligations to the Board in conformance with generally accepted industry standards, its contract with the System, and the System's Investment Consultant Operational Policy.

Fund allocation and performance will be regularly reviewed and recommendations will be made as appropriate. The consultant will assist the Board in investment manager selection, when needed, and will promptly inform the Board and discuss the impact of material changes taking place within any current manager's organization and/or investment process. Within this process, the investment consultant assumes fiduciary responsibility for advice given regarding the management of the investment process.

Investment Managers

The investment managers will construct and manage investment portfolios consistent with the investment philosophy and disciplines they were hired to implement and which are specified in this document and in the respective investment management agreement (IMA) they execute with the System. The terms, provisions and requirements set forth in the Investment Policies, the applicable local, state and federal laws, and the IMA executed by the investment manager, are hereinafter collectively sometimes referred to as the "Guidelines". Investment managers will select specific securities, buy and sell such securities, and manage the investment portfolio within the Guidelines. The Board also believes that investment decisions are best made when not restricted by excessive procedure. Therefore, full discretion is delegated to the investment managers to carry out the investment of the respective portfolios within stated guidelines. They will also allocate brokerage commissions and use only acceptable investment vehicles as defined in the Investment Policies and the respective IMA.

Bank Custodian(s)

The bank custodian(s) will hold all cash and securities, and will regularly value, list and summarize these holdings for the Board's review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment manager, and to invest such cash in liquid, interest-bearing instruments.

III. FIDUCIARY CONDUCT

An investment fiduciary includes, but is not limited to, a person who exercises discretionary authority or control in the investment of the assets of the City of Austin Employees' Retirement System (the "System") or who renders, for a fee, advice for the System. The term investment fiduciary includes, but is not limited to the members of the Board of Trustees, the Retirement System Staff, the investment consultant, investment managers and bank custodian.

An investment fiduciary shall discharge his or her duties exclusively in the interest of the participants in the System and their beneficiaries and shall:

1. Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;

2. Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered;

3. Make investments for the sole purpose of providing benefits to participants and participants' beneficiaries, and of defraying reasonable expenses of supervising, safeguarding, and investing the assets of the System; and

4. Give appropriate consideration to those facts and circumstances that an investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role which the investment or investment course of action plays in that portion of the investments for which an investment fiduciary has responsibility. For purposes of this subdivision, "appropriate consideration" shall include, but is not necessarily limited to, a determination by an investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the System, to further the purposes of the System, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action. The trustees shall give consideration of the following factors as they relate to total system's investment course of action:

   (a) the diversification of the investments of the System;
   (b) the liquidity and current return of the investment of the System relative to the anticipated cash flow requirements of the System; and
   (c) the projected return of the investments of the System relative to the funding objectives of the System.

5. Act in accordance with these guidelines and all applicable laws and statutes.

IV. PERMISSIBLE INVESTMENTS

Listed below are the investment vehicles specifically permitted currently under this Statement of Investment Policies and Objectives. They are categorized as equity, fixed income or real estate to indicate how they are classified for purposes of the asset-mix guidelines in a subsequent section. Unless given authorization in writing, managers are allowed to invest only in the security types listed below for the asset class for which they have been hired.

Equities

- Common stocks
- Convertible Bonds
- Preferred Stocks

Fixed Income

- Domestic and Yankee Bonds
- Mortgages and Mortgage-Backed Securities
- Asset-Backed Securities
- Cash-Equivalent Securities
- Money Market Funds, Bank STIF and STEP Funds

Real Estate

- Open Ended Commingled Funds

1. The above assets can be held in commingled (mutual) funds as well as privately managed separate accounts. If held in a commingled account or mutual fund, the prospectus or Declaration of Trust takes precedence over this document.

2. Private placement bonds are not permitted. 144(a) fixed income securities are allowable.

3. Investments may not be made in any investment that is prohibited by the Internal Revenue Service, the Department of Labor or statutory restrictions.

4. For purposes of definition, cash equivalent securities are any fixed income investment with less than one year to maturity or reset date.

5. The securities representing equity of any one company shall not exceed 4% of the cost basis or 6% of the market value of any manager's portfolio. Fixed income securities of any one corporation shall be limited to 4% at cost of a portfolio and may not exceed 6% at market. This restriction also applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipals. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed 20% of the portfolio at cost (agency-issued mortgage-backed securities to include GNMA's). The direct debt of the federal government (treasury bonds, bills and notes) shall not be restricted as a percentage of the portfolio.

6. The fund will be invested in a manner consistent with all applicable local, State and Federal laws.

7. International equity managers may invest in depository receipts as long as the underlying security is permissible within these guidelines and the investment does not expose the Fund to any greater risk than the risk from holding the underlying security.

8. Domestic equity managers are allowed to invest in dollar-denominated, SEC registered stock of foreign domiciled companies traded on the NYSE, AMEX or OTC markets. Concentration restrictions for the above securities are the same as for any other security.

INVESTMENT PORTFOLIOS

V. GENERAL FIXED INCOME PORTFOLIO GUIDELINES

Eligible Holdings

The portfolio will be invested exclusively in publicly traded fixed income securities, as described on Page 6 under "Permissible Investments". Securities are not allowed that use any form of leverage or in which interest or principal position is tied to anything not specifically allowed in these guidelines.

Diversification

The diversification of the fixed income securities held in the portfolio among sectors and issuers is the responsibility of the investment manager. No single company's securities shall represent more than 4% of the cost basis or 6% of the market value of any manager's portfolio. (This does not apply to obligations of the U.S. Government or its agencies as defined in item 5 under Permissible Investments).

144(a) securities shall be limited to no more than 5% of the portfolio at market value of any manager's portfolio.

Portfolio Quality

Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody's or BBB- by Standard & Poor's) by either rating agency unless specific written permission is granted by the Board to a manager. Split-rated securities in which one rating is below investment grade shall not comprise more than 5% of the market value of any manager's portfolio unless specific authority has been granted. Furthermore, unless specific authority has been granted by the Board, in the event of a bond's downgrade below investment grade by both Moody's and Standard & Poors, the Board shall be notified in writing and the manager shall include a recommended course of action in response to the event in the way it deems most prudent for the Fund in the long term.

Issues rated AAA to Aa3 (Moody's) or AA- (Standard & Poor's) may have a 5% position at cost and a 7% position at market value. Issues rated below Aa3 (Moody's) or AA- (Standard & Poor's) may have a 2% position at cost or 3% position at market value.

The ratings issue does not apply to direct obligations of the U.S. Government and its agencies (as defined in item 5 under Permissible Investments), but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.

If specific managers are given international flexibility, the same quality restrictions apply.

Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A- (Standard & Poor's) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.

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Performance Objectives

Primary emphasis is to be placed on relative rates of return. Over a market cycle or five years, whichever is shorter, the following are the performance expectations for the portfolio:

- The total return of the fixed income segment of the fund should rank above median performance in a universe of managed fixed income portfolios.
- The total return of the fixed income component, net of fees, should exceed the return of the Lehman Brothers Aggregate Bond Index.
- Passive fixed income investment products are expected to equal the return of the underlying index gross of fees.

VI. EQUITY PORTFOLIO GUIDELINES

Eligible Holdings

The portfolios will be invested in publicly traded marketable securities. Restricted or letter stock etc., is not permitted.

Diversification

The diversification of the equity securities held in the portfolio among sectors and issuers is the responsibility of the investment manager. No single company's securities shall represent more than 4% of the cost basis or 6% of the market value of any manager's portfolio.

Style Adherence

The most important feature any individual manager brings to a multi-manager portfolio is style adherence. Quarterly, fundamental portfolio characteristics and style benchmark comparisons will be monitored for adherence to a manager's identified style.

Performance Objectives

Primary emphasis is to be placed on relative rates of return after fees. Over a market cycle or five years whichever is shorter, the following are the performance expectations for each portfolio:

- Passive investment vehicles are expected to match the return of their respective benchmarks gross of fees.
- The total return of the domestic equity segment of the Fund should rank above median in a universe of equity style peers.
- The total return of the domestic equity composite, net of fees, should exceed the total return of the Russell 3000 Index and rank above median in a universe of equity style peers.

VII. RESPONSIBILITIES OF EACH INVESTMENT MANAGER

The duties and responsibilities of each investment manager appointed to manage the Fund's assets are:

- Managing the assets in accordance with the Investment Manager Agreement, statutory requirements, policy guidelines and the objectives expressed herein. No deviation is permitted unless the ability to do so is given in a separate written agreement by the Board.

- Promptly informing the Board regarding all significant matters pertaining to the investment of the assets. The Board shall be kept apprised of major changes in investment strategy, portfolio structure, market value of the assets, and other matters affecting the investment of the assets. The Board should also be informed promptly of any significant changes in the ownership, affiliation, organizational structure, financial condition, or professional personnel staffing of the investment management organization.

- Initiating written communication with the Board whenever the investment manager believes that this Statement of Investment Policies and Objectives should be altered. No deviation from guidelines and objectives shall occur prior to receiving written permission from the Board.

- Each investment manager is hereby authorized and empowered to vote proxies, said voting to be performed in good faith and for the exclusive benefit of the System participants and beneficiaries.

- Each investment manager shall keep accurate records as to the voting of proxies and shall provide information from such records to the Board upon request of the Board. Each investment manager shall annually report to the Board in writing as to actions taken with regard to proxy voting issues in cases where the investment manager votes in opposition to company management.

- Furnish the System with a current copy of the approved Manager's ADV annually to concur with filing date.

- Reporting, on a timely basis, quarterly investment performance results.

- Each manager shall maintain the proper insurance coverage as outlined in the contract with the System.

- Each manager is responsible for monitoring trade transaction costs and settlement processes. Managers shall provide information and documentation on specific broker transactions as requested. Each manager shall comply with the Association of Investment Management and Research standards on soft dollar transactions.

VIII. TOTAL PENSION FUND INVESTMENT OBJECTIVES

Both relative and absolute results will be considered in the evaluation of the total Fund's performance. The following are the performance expectations for the Fund.

The Fund's total return after fees should exceed the total return of an index composed of a mix of asset class benchmarks in proportions set out in Appendix IV.

The time period for this objective is one market cycle or five years, whichever is shorter.

IX. EVALUATION AND REVIEW

On a timely basis, but not less than annually, the Board will review actual investment results achieved to determine whether:

- The investment managers performed in accordance with the policy guidelines set forth herein.

- Asset allocation remains reasonable and each manager's decision-making process remains consistent with the style and methodology represented by the manager.

- The investment manager performs satisfactorily when compared with:

  - the objectives stated herein, as a primary consideration,
  - other managers of similar style, and
  - recognized market indices

- On an annual basis, the Board will review investment manager proxy voting procedures and proxy voting records as submitted in accordance with item VII above, and

- Review commissions generated, commission rates charged and firms used by the money managers. Compliance with specific directives regarding commission cost management will be regularly reviewed.

Also, at least annually, the Board will formally review this Statement of Investment Policies and Objectives to determine whether it continues to be appropriate in light of the Board's investment philosophy and objectives, and changes in the capital markets and/or Fund structure.

X. SECURITIES LENDING – SPECIFIC POLICIES AND GUIDELINES

The Board may select an agent to lend the financial securities of the fund. Any income gained through the lending program will be deposited monthly in a specified account and invested in short-term instruments until allocated by the Board.

The agent may lend any eligible securities, such as U.S. and non-U.S. equities, corporate bonds and U.S. and non-U.S. government securities. The agent shall have full discretion over the selection of borrowers and shall continually review credit worthiness of potential borrowers through adequate analysis of all material provided to them.

All loans shall be fully collateralized with cash, government securities or irrevocable bank letters of credit. Collateralization of such loans shall be 102% domestic/105% international of the market value of the loaned securities plus accrued income for U.S. and non-U.S. loans, respectively. Such collateralization procedures should be marked-to-market daily by the agent.

The securities lending program shall in no way inhibit the trading activities of the investment managers of the System.

The securities lending agent must have written/internal guidelines for the investment of cash collateral. The Board will review these guidelines and incorporate them as the COA ERS Investment Policy on Securities Lending Cash Collateral. A copy of the agent's cash collateral Investment Policy shall be sent to the Fund at least annually or any time there is a material change made to the document.

Authorization

You are hereby authorized to operate under the preceding guidelines.

12/3/02

Authorized Signature | Date

Chairperson of the Board of Trustees

Attested To

12/02/02

Summit Strategies Group | Date

Corporate Seal:

Acceptance

We have reviewed the above guidelines and agree to comply with them.

Authorized Signature | Date
Investment Manager

Corporate Seal:

Authorization

You are hereby authorized to operate under the preceding guidelines.

Authorized Signature | Date: 12/3/02

Chairperson of the Board of Trustees

Attested To

Summit Strategies Group | Date: 12/02/02

Corporate Seal:

Acceptance

We have reviewed the above guidelines and agree to comply with them.

Authorized Signature | Date

Investment Manager

Corporate Seal:

Appendix I
Asset Allocation & Rebalancing Guidelines

Asset Allocation

The Trustees believe that the level of risk assumed in the Fund is a function, in large part, of the Fund's asset allocation. The proportion of assets allocated for equity investments is the most important determinant of volatility of future returns. As indicated by long-term historical data, the risk of equity ownership has been rewarded with a higher rate of return.

Based on its determination of the appropriate risk posture for the Fund and its long-term return expectations, the Board and investment consultant have established the following asset mix guidelines for the Fund:

Asset Class	Fund Guidelines
Equity Investments	65%
Fixed Income Investments	30%
Real Estate	5%

The Board, in conjunction with advice from the investment consultant, is responsible for broad asset allocation decisions. A manager's cash can disrupt this position. Therefore, each equity manager's portfolio is to be fully invested at all times, although cash may be held briefly when a security is sold prior to deciding which new security should be purchased. Fully invested is defined as less than 5% in cash equivalents. If a manager exceeds 5% cash for greater than 30 days, the manager shall notify the System in writing. This directive is consistent with the Board's decision to have managers avoid market-timing decisions.

Fixed income managers are exempt from this because of the use of "barbell" strategies in constructing a fixed income portfolio. However, each fixed income manager accepts the Board's intention to avoid market timing and acknowledges that total portfolio performance (including cash) shall be compared to established performance objectives. The Board will review its asset allocations at least every two years, or sooner if a material event in either the liability structure of the plan or the capital markets warrants a sooner look.

Rebalancing

The Board has established its strategic asset allocation mix and believes it prudently positions the assets of the System so as to achieve its long-term goal of providing established benefits to the participants and their beneficiaries at a reasonable cost to the employer. Market movements may cause a portfolio to differ from this strategic mix. The desire to maintain this constant strategic mix must be balanced with the very real cost of portfolio re-balancing. Therefore, a range has been set for the actual asset allocation of the System's assets to allow for the fluctuations that are inherent in marketable securities. Once market movement has moved the actual allocation outside these ranges, the Board has authorized the Investment Committee, with advice from Staff and consultant to rebalance the portfolio back to its long-term strategic asset allocation target. This shall be done within a month of a triggering event caused by market movement. When these broad targets are rebalanced, the Board will also use this opportunity to rebalance among portfolios within asset classes (large cap domestic, small cap and international equities, for example). The target allocations and rebalancing trigger percentages are:

Broad Asset Classes	Low Trigger	Target	High Trigger
Common Stocks	59%	65%	71%
Fixed Income	27%	30%	33%

It is the responsibility of the custodian to calculate market value based asset allocation range and report these to staff and consultant monthly.

Appendix II
Asset Class Diversification

- Within the broad definition of equities and fixed income for allocation purposes, the Trustees with advice from the consultant, believe it is prudent to diversify within asset classes. The intra-asset class categories and their proportion of the total asset class allocation shall be:

Equities:	**65%**	**Fixed Income:**	**30%**	**Real Estate:**	**5%**
Large Cap Domestic	50%	Cash	0%	Real Estate	5%
Non-Large Cap Domestic	25%	Core Fixed Income	100%		
International	25%				

- While the Trustees with advice from the consultant, believe that diversification is prudent, they also believe that over-diversification is detrimental to the System. Therefore, the Trustees shall not consider an asset segment for inclusion in the portfolio that does not warrant a 5% allocation of the total fund.

- Rebalancing will take place when the broad asset class trigger percentages have been reached.

Appendix III
Asset Class Sector & Individual Manager Performance Expectations

A. Fixed Income Portfolio Managers

Over a market cycle or five years, whichever is shorter:

- The long-term objective for each fixed income manager is to add value after fees to a specified broad market benchmark. The broad market benchmark for the fixed income composite is:

	Benchmark
COA ERS Fixed Income Composite	Lehman Brothers Aggregate Bond Index

- It is recognized that different maturity ranges and sectors within the broad market categories go in and out of favor. Therefore, short-term examination of each manager's performance will focus on style adherence, duration peer comparisons and style benchmarks. The following are the references the Board will use on a quarter-by-quarter basis to monitor each manager.

Domestic Fixed Income Managers

Manager	Style	Peer Sample	Style Benchmark
NTQA	Core	Core	Lehman Brothers Aggregate Bond Index
Agincourt	Core	Core	Lehman Brothers Aggregate Bond Index

B. Equity Portfolio Managers

Over a market cycle or five years, whichever is shorter:

- The long-term objective for each active equity manager is to add value after fees to a broad market benchmark. The broad benchmarks are as follows:

	Market Benchmark
Large Capitalization Domestic Equity Managers	S&P 500
Mid/Small Capitalization Domestic Equity Managers	Russell2500
International Equity Managers	MSCI EAFE
Domestic Equity Composite	Russell 3000

- Passive investment products are expected to match the return of their respective benchmark, gross of fees.
- We recognize that styles within broad market categories move in and out of favor. Therefore, short-term examination of each manager's performance will focus on style adherence, style peer comparisons and style benchmarks. The following are the references the Board will use on a quarter-by-quarter basis to monitor each manager.

Large Cap Domestic Equity Managers

Manager	Style	Peer Sample	Style Benchmark
NTQA S&P 500	Large Cap Core	Large Cap Core	S&P 500
Alliance Capital Management	Large Cap Growth	Large Cap Growth	Russell 1000 Growth
Aronson + Partners	Large Cap Value	Large Cap Value	Russell 1000 Value

Mid/Small Cap Domestic Equity Managers

Manager	Style	Peer Sample	Style Benchmark
Sterling	Small Cap Value	Small Cap Value	Russell 2000 Value
Eubel Brady Suttman	Mid Cap Value	Mid Cap Value	Russell Mid Cap Value
Wall Street Associates	Mid Cap Growth	Mid Cap Growth	Russell Mid Cap Growth
Pilgrim Baxter	Small Cap Growth	Small Cap Growth	Russell 2000 Growth

International

Manager	Style	Peer Sample	Style Benchmark
Walter Scott	International	International	MSCI EAFE (non-hedged)
Sprucegrove	International	International	MSCI EAFE (non-hedged)

The capitalization of each stock in a manager's portfolio shall be within the cap range of the above identified style benchmark when purchased. If aggregate holdings equal to or higher than

10% of the portfolio value fall outside this range for a period of over 30 days, written notification and justification shall be sent to the System.

Currency management is at the discretion of the active international manager.

Appendix III

C. Real Estate Managers

Over a market cycle or five years, whichever is shorter:

- The long-term objective for each real estate manager is to add value after fees to a specified broad market benchmark. The broad market benchmark for the real estate composite is:

	Benchmark
COA ERS Real Estate Composite	NCREIF

- It is recognized that different property types and sectors within the broad market categories go in and out of favor. Therefore, short-term examination of each manager's performance will focus on style adherence, duration peer comparisons and style benchmarks. The following are the references the Board will use on a quarter-by-quarter basis to monitor each manager.

Domestic Fixed Income Managers

Manager	Style	Peer Sample	Style Benchmark
TBA	Diversified Core	Real Estate	NCREIF

Appendix IV
Individual Manager Allocation Targets

The market value of COA ERS will be calculated as the current total market value of all of the investment accounts within COA ERS. This market value will be multiplied by the following percentages to determine the target stock and bond allocations.

For ongoing rebalancing monitoring, the amount held in stocks will be the sum of the market values of all equity accounts. For fixed income, this will be the sum of the market values of all fixed income accounts.

When the rebalancing ranges have been exceeded, the stock and bond portions of the fund will be rebalanced back to their target allocations. Within asset classes, the portfolios will be reallocated to achieve the following percentages:

	Asset Class %	Inter-Asset Class %	Manager Target %
Fixed Income	**30%**		
U.S. Fixed		**100%**	
Agincourt			50%
NTQA			50%
Equity	**65%**		
Large Cap U.S.		**50%**	
S&P 500			50%
Alliance			25%
Aronson			25%
Non-Large Cap U.S.		**25%**	
Wall Street Associates			25%
Eubel Brady			25%
Pilgrim Baxter			25%
Sterling			25%
International		**25%**	
Walter Scott			50%
Sprucegrove			50%
Real Estate	5%	Funding in 2003	

Appendix V
Performance Based Fees

The System may enter in to performance based fees with specific managers. While each specific contract will be the ultimate authority regarding the actual arrangement, the following factors will be consistent in any arrangement the System enters into:

Base Fee: A base fee will be paid quarterly to the manager regardless of performance.

Performance Sharing Formula: A percentage of the manager's net outperformance (base fee subtracted) over the predetermined benchmark for the determined period will be paid when applicable. Whatever the dollar amount calculated by the formula, the System will pay the quarterly equivalent, or one-fourth, of this amount.

Fee Ceiling: There will be a performance fee ceiling expressed in basis points that will not be exceeded regardless of performance.

Time Horizon: Each contract will specify a rolling time period for which the annualized returns of both the total portfolio and the benchmark will serve as the basis for the performance calculation.

The custodian bank will price the portfolio and will be the basis for the investment consultant's calculation of the specific portfolio's performance. The publisher of the benchmark will determine the performance of the benchmark. In the event that the manager has a dispute with the custodian's pricing, he/she will express the discrepancy in writing to both the custodian and the consultant. The consultant will be the arbiter and it is the consultant's decision that will resolve such disputes.

Appendix VI
Class Action Lawsuit Policy

From time to time the Trustees may determine, with the advice and assistance of the System's General Counsel, that it is in the best interest of the Fund's participants and beneficiaries to participate in class action lawsuits where the fund has been harmed due to securities fraud or other violations. In doing so, the fund generally will not seek lead plaintiff status, opting instead for filing notice of claim when appropriate, unless so advised by the fund's General Counsel. In any event it shall be the custodian's responsibility to monitor all such lawsuits and report to the Administrator as necessary. In addition, all investment managers shall be notified of any potential or pending legal action.

Appendix VII
Manager Reporting Requirements

Active Managers' Reports

Investment Guidelines & Performance:

1. List the guidelines, objectives and other measurements from your Appendix page in the Investment Policy and any pertinent items within the body of your contract. Verify compliance status on a point-by-point basis. You may also summarize this section to explain your position on compliance. Sign and date this page. If you recommend any changes be made to the guidelines, list any suggested changes and the rationale behind each change.

2. Current Market Values & Investment Performance: Provide COA ERS' portfolio returns and composite performance on the assigned product. Disclose the highest performing and the lowest performing account for all time periods. If there is a dispersion among the accounts, what is the source of dispersion? How do you control dispersion among accounts? Use the illustrated format to provide this information.

3. List for each of the last quarter and calendar year the total commissions generated in our portfolio. Breakdown as follows:

	Most Recent Quarter	2001	2000
Discount Brokers			
Full Commission Brokers (list individually also)			

List each full commission broker separately, the amount spent each year with that broker and a description of the benefit received.

Portfolio Appraisal and Transactions:

1. Include the following on your Asset Statement:
   - Name
   - Number of Shares
   - Average cost per share
   - Total cost for security
   - Current market value per share
   - Total market value for security
   - % of total market value
   - Gain/loss for each security
   - Categorize by Sector and then Total at the end

2. List all purchases and sales for the review period. For each sale show the following:
   - Cost per share
   - Sales price per share
   - Total proceeds from sale
   - Total cost
   - Gain/loss for each transaction
   - Broker used and commission charged per share (provide for both purchase and sale).

     Total by brokerage firms all transactions traded with each firm. If a security was held in the portfolio for less than 30 days, explain the rationale for both the purchase and sale of the security (or securities).

Market Environment:

In this section, include information on the market environment, market analysis, sector analysis or other items you feel of interest to our Board with regards to your particular strategy. It is not necessary to compare your style of management to others unless it impacts your investment strategy. Focus this section on your particular market environment.

Organizational Issues:

1. Discuss the progress and changes of your firm over the last three years. Fill out the following table:

Assets Under Management (firm-wide)	
Assets Under Management (in this product)	
Number of Accounts in this Product	
Accounts Gained in Last 3 Years (firm-wide)	
Accounts Gained in Last 3 Years (in this product)	
Accounts Lost in Last 3 Years (firm-wide) & explanation for the loss (list each client lost by name)	
Accounts Lost in Last 3 Years (in this product) & explanation for the loss (list each client lost by name)	

2. What are the major initiatives planned for the firm over the next 3, 5 & 10 years?
3. List any and all personnel departures from the group and the responsibilities of this person.
4. Discuss the growth in capabilities on a firm-wide basis as well as within the product group. List new products offered in the last 3 years. Were the additional capabilities for these new products developed internally or purchased?
5. How are the portfolio management, administration, research, firm management and marketing efforts separated within the firm? Identify the key decision makers in each area. What percentage of the portfolio manager's time is spent in each area (total needs to add to 100%).
6. Have you found it necessary to place a cap on assets under management in this product? Why or why not?

Market Value and Asset Growth Summary for Periods Ended MM/DD/YY

	Calendar Year-to-Date	1 Year	Inception-to-Date
Beginning Market Value			
Contributions			
Withdrawals			
Manager Fee Paid			
Return on Investment			
Ending Market Value			

Present the portfolio balance as reconciled with Northern Trust data. We expect complete market value reconciliation with Northern Trust in writing and need explanation if your market value does not match.

Total Fund Rates of Return for Periods Ended MM/DD/YY

	Current Quarter	Calendar YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Rate of Return Gross of Fees							
Rate of Return Net of Fees							
Benchmark Return							
Value added/detracted vs. Return net of Fees*							
Composite Performance							
Highest returning account within composite							
Lowest returning account within composite							

*You may footnote the Value Added column to explain your rationale to value added/lost to the benchmark.

Market Environment:

In this section, include information on the market environment, market analysis, sector analysis or other items you feel of interest to our Board with regards to your particular strategy. It is not necessary to compare your style of management to others unless it impacts your investment strategy. Focus this section on your particular market environment.

Proxy Voting:

For the domestic equity managers, on a quarterly basis, list the proxy votes by security that your firm voted against management.

Index Fund Managers' Reports

General:

The Investment Manager will assist Staff in monitoring the COA ERS data for compliance with the Investment Manager contract. The Investment Manager will invest in stocks to "mirror" the index. For this reason, the investments will be made by sector, category, and style to "mirror" the index and the return should approximate the index. The index fund manager will not be required to make on-site presentations to the Board unless specifically requested. The index fund manager may be required to present information in addition to that listed below as may be deemed necessary by the Board of Trustees, Investment Committee, and/or Pension Director. Index fund managers should immediately notify the COA ERS of any changes in the primary people assigned to the COA ERS portfolio.

Quarterly Reports:

The Investment Manager will report on a quarterly basis: the stocks held, return of the COA ERS portfolio compared to the index/contractual benchmark. The Investment Manager shall provide a summary listing of stocks bought or sold, and a summary of commission expenses paid.

Monthly Reports:

The Investment Manager shall present monthly reports showing the return for COA ERS portfolio, the return of the index, total commission and fees paid.

Appendix VIII

Summary of Rating Symbols and Definitions

Investment Grade – High Creditworthiness

Moody's	S&P
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

Distinctly Speculative – Low Creditworthiness

Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-

Predominantly Speculative – Substantial Risk or in Default

	CCC+
Caa	CCC
	CCC-
Ca	CC
C	C
	CI
D	D

Source: Richard S. Wilson and Frank J Fabozzi, The New Corporate Bond Market (Chicago: Probus Publishing Company, 1990).