coaers

City of Austin Employees' Retirement System

City of Austin Employees' Retirement System
Board Approved Policy

Policy:	I-1
Subject:	Statement of Investment Policy
Review Committee:	Investment Committee
Date Implemented:	July 1, 1980
Date Reviewed and/or Revised:	April 20, 2018 December 12, 2017 November 22, 2016 September 22, 2015 May 27, 2014 January 28, 2014 November 26, 2013 November 27, 2012 November 22, 2011 March 8, 2011 November 23, 2010 June 22, 2010 November 24, 2009 November 25, 2008 November 27, 2007 November 28, 2006 November 29, 2005 November 30, 2004 Re-adopted without change – November 25, 2003 November 19, 2002 September 26, 2000 November 30, 1999 November 22, 1994 March 21, 1990

Signature of Chair: _____
Chris Noak

Adopted
April 20, 2018

Statement of Investment Policy

for

City of Austin Employees' Retirement System
(COAERS)

Table of Contents

Statement of Investment Policy
for
City of Austin Employees' Retirement System (COAERS)

I. STATEMENT OF POLICY

Purpose

This document (including Appendices I –IV) is the official Investment Policy of the City of Austin Employees' Retirement System (the "System"). The System's assets and investments (the "Fund") are held in trust for the exclusive benefit of the trust fund's members, beneficiaries, and retirees and may not be diverted. This "exclusive benefit" rule must be followed when making any investment decisions. The policies in this document (the "Policy") have been adopted by the Board of Trustees of the System (the "Board") to establish both the investment policies and the investment objectives of the System.

The terms and requirements of this policy are not to be deviated from by any responsible party without the prior authorization 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 All previous System investment policies and objectives are superseded by this document.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. At least annually, the Board will formally review this Policy to determine whether it remains appropriate in light of the Board's investment philosophy and objectives, changes in the capital markets, and/or Fund structure.

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. The Fund will be structured and managed to maximize the probability of achieving the following objectives net of fees and expenses:

1. Control risk by:
   - Ensuring proper diversification of asset classes; and
   - Establishing long-term risk and return expectations.

2. As applicable to the System, achieve a long-term absolute rate of return that:
   - Exceeds the assumed actuarial rate of return adopted by the Board;
   - Exceeds the long-term rate of inflation by an annualized 4.75% or more;

3. As applicable to the System, achieve a long-term relative rate of return that:
   - Exceeds the rate of return of the passive portfolio; and
   - Exceeds the return of the Policy Benchmark on a risk-adjusted basis.

The Board, with consultation, advice and assistance from the System's Staff and Investment Consultant, will use the Fund's strategic asset allocation as the primary tool to achieve these goals. The primary evaluation criteria for fund performance will be its long-term net returns and the ability of those returns to fully fund the liabilities of the System over time.

A primary emphasis of the investment management of the Fund is consistency of growth in a manner intended to protect the Fund from excessive volatility in market value from year to year. Given this purpose, the System's liquidity requirement, and the source and predictability of contributions, the Board elects to assume moderate levels of risk (i.e. a standard deviation of monthly returns over three or more years that ranks in the second or third quartile of its peers) in pursuing an investment program. The risk management efforts of the program are to consider other statistical measures of historical and projected risk such as value at risk and drawdown. As importantly, the key long-term risks to the fund's solvency (such as low investment returns, weak global growth, and poor demographics) are to be identified, considered and evaluated on a regular basis.

As the strategic asset allocation 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 on a risk-adjusted basis. In addition, the composite performance of each asset segment and the individual performance of each Investment Manager shall be compared to the appropriate market benchmarks and peer medians over relevant time periods and on a risk-adjusted basis.

Investment Philosophy

The Fund is a permanent one, and as such strategic decisions regarding its management should be made and evaluated using a long time horizon.

The benefit obligations of the System must be met on a timely and regular basis, though there is currently no expectation of a need for significant liquidity from the Fund.

Diversification should be the primary focus of the fund's design, and all strategies and approaches that improve fund diversification will be considered.

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 except that the System's tax exempt status should be preserved.

The level of risk assumed in the Fund is a function, in large part, of the Fund's asset allocation. Specifically, the proportion allocated to equity investments is the most important determinant of the volatility of Fund returns.

In the long run, equity investment is a prudent investment vehicle for preservation of real values. As indicated by long-term historical data, the risk of equity ownership has been rewarded with a higher rate of return.

The purpose of fixed income investments is to protect principal, provide income and provide a measure of stability to the Fund.

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.

II. INVESTMENT RESPONSIBILITIES

This document sets out specific duties and responsibilities for the parties that are established to act as fiduciaries regarding the investment program for the Fund in achieving its objectives.

Board of Trustees

The Board has the fiduciary duty of overseeing the Fund and the associated investment process. In fulfilling this responsibility, the Board will establish, maintain and require compliance with this Investment Policy and the objectives stated in this document. Within this framework, the Board will select, contract with, monitor, and evaluate the Investment Consultant, Investment Managers, Custodian (as defined herein), and other parties to serve the goal that actual results meet the objectives.

The Board may, at its discretion, delegate authority for strategic and operational aspects of the Fund to Staff but may not delegate the responsibility for the program. In addition, the Investment Committee is chartered to assist the Board of Trustees in fulfilling its fiduciary oversight responsibility for the investment assets of the System. Duties of the Investment Committee may include, but are not limited to, formulating and recommending to the Board the overall investment policies of the System and establishing and recommending to the Board investment guidelines in furtherance of those policies, subject to approval by the Board. The Committee monitors management of the Fund for compliance with the investment policies and guidelines and for meeting performance objectives over time.

Professional Staff

The Executive Director, the Chief Investment Officer and the Chief Financial Officer will constitute the System's professional staff ("Staff"). Staff is responsible for rendering to the Board objective, competent, professional advice that is free from conflicts of interest. Staff will make recommendations to the Board regarding the Fund and will be responsible for implementing both Board decisions and its respective portions of this Investment Policy.

Staff is retained and authorized by the Board to provide professional investment analysis and support, exercising reasonable care consistent with COAERS' fiduciary duty, and to maintain the integrity of the investment program. Responsibilities include investment analysis and research; assistance in selection and monitoring of external managers; analysis of trade costs; and the development, recommendation and implementation of this policy, asset allocation, portfolio structure, advisor/consultant selection, and custodian selection.

Investment Consultant(s)

The Board may obtain the services of one or more qualified firms or individuals to assist and advise the Board and Staff regarding the structure, management, and investment of the Fund (an "Investment Consultant"). An Investment Consultant's duty is to render objective, competent, professional advice and assistance that is free from conflicts of interest and to work with the Board and Staff with respect to the investment process. This includes meeting regularly with the Board to provide perspective as to the Fund's goals, strategy, structure and risk as well as the progress being made in fulfilling the Fund's long-term objectives.

An Investment Consultant will advise, consult and work with the Board and Staff to develop and maintain a well-diversified portfolio of investments for the Fund. Fund allocation and performance will be regularly reviewed and recommendations will be made as appropriate. An Investment Consultant will assist the Board in manager selection and monitoring as needed, including informing the Board promptly of material changes to portfolio investments. Within this process, an Investment Consultant assumes fiduciary responsibility for advice given regarding the management of the investment process. An Investment Consultant will perform its duties and obligations to the Board in conformance with generally accepted industry standards and its contract with the System.

In the event that the Board considers making direct investments, it may obtain the services of one or more qualified firms or individuals to assist and advise the Board and Staff regarding selecting specific direct investments (a "Direct Investments Consultant"). Direct investments are defined for the purpose of this policy as investments that are not invested or managed by an investment manager appointed by the Board pursuant to Section 802.204, Texas Government Code. In order to avoid even the appearance of potential conflicts of interest, an Investment Consultant may not act as a Direct Investments Consultant if performing such services will result in compensation to or financial gain by the Investment Consultant that is in addition to amounts paid to the Investment Consultant under its existing agreement for investment consultant services with the System. The separation in roles will not limit the fiduciary responsibilities of any consultants with respect to services provided. The Board intends that an Investment Consultant be a full participant in the evaluation and decisions regarding any direct investments.

Investment Managers

Except for direct investments, investments for the Fund shall be made and managed by one or more investment managers ("Managers") who meet the requirements of Sections 802.203(d) and 802.204, Texas Government Code. Managers will construct and manage a portfolio of investments (the "Portfolio") consistent with the investment philosophy and disciplines they are hired to implement in compliance with this document and the respective investment management agreement (IMA) they execute with the System. When the word "Product" is used in this Policy, it means an investment strategy or methodology that is structured, developed and marketed for investing in specific securities or specific types of securities. The terms, provisions and requirements set forth in this Investment Policy, the applicable local, state and federal laws, and the IMA executed by the Manager, establish the requirements governing the investment of the Fund, and such requirements are hereinafter collectively sometimes referred to as the "Guidelines".

Managers will select specific securities, buy and sell such securities, and manage the investment Portfolio within the Guidelines. These investment decisions are best made when not restricted by excessive procedure. Therefore, full discretion is delegated to the Managers to carry out the investment of the respective Portfolio within the Guidelines. Managers will also allocate brokerage commissions and use only acceptable investment vehicles as defined in the Investment Policy and the respective IMA. In the event of an actual or perceived conflict between this Investment Policy and the respective IMA, the more strict interpretation shall prevail unless specifically provided otherwise in this Investment Policy or the IMA.

Each Manager is expected to maintain a consistent philosophy and strategy, perform well on a risk-adjusted basis versus peers pursuing a similar strategy, add value after costs and provide investment management in compliance with this document and the Manager's contract with the System. The Manager shall manage the assets in accordance with the Guidelines (the IMA, statutory requirements, this Investment Policy and the guidelines and the objectives expressed herein). The execution and delivery of the IMA by the Manager is an acknowledgement by the Manager that it has received this policy and will fully comply with its terms and provisions as well as those of the IMA and all other Guidelines. No deviation is permitted unless specifically authorized by the Board.

The Manager shall promptly inform the Staff and Investment Consultant 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 shall also be informed promptly of any significant changes in the ownership, affiliation, organizational structure, financial condition, or professional personnel staffing of the Manager's organization.

Each Manager is responsible for monitoring transaction costs and settlement processes. Each 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 Manager shall maintain the insurance coverage established in their IMA with the System. The Manager shall promptly notify the Staff and Investment Consultant if insurance coverage violates established minimums. Each Manager shall comply with all Annual and Quarterly Reporting Requirements set forth in Appendix III.

While managers will typically be compensated on the basis of asset under management, the System may also enter into performance-based fee agreements with managers. While each specific contract will be the ultimate authority regarding the actual compensation arrangement, the following features should be consistent in any such contract unless otherwise determined to be favorable to COAERS:

- A **base fee** will be paid quarterly to the manager regardless of performance.
- A **percentage sharing formula** shall calculate the dollar amount of manager's net outperformance (net of the base fee) over the assigned benchmark for the determined period, the quarterly equivalent (i.e. one-fourth) of this amount shall be paid.
- There will be a performance **fee ceiling** expressed in basis points that will not be exceeded regardless of performance.
- Each IMA will specify a rolling **time horizon** period for which the returns of both the Portfolio and the benchmark will serve as the basis for the performance calculation.

The Custodian's pricing of the Portfolio will serve as the basis for the Investment Consultant's calculation of the specific Portfolio's performance and publisher data will determine the performance of the benchmark. If a Manager has a dispute with the Custodian's pricing, the Manager will express the discrepancy in writing to the Custodian, Staff, and the Investment Consultant. The Staff will work with the Manager to resolve any fee calculation disputes.

Global Custodian(s)

The Global Custodian(s) ("Custodian") will maintain custody of all cash, securities, commingled funds and other investments of the Fund. The Custodian will regularly value, list and summarize these holdings for review by the Board and Staff. The Custodian will also accurately record all transactions affecting the Fund. The audited entries from the Custodian constitute the official book of record for the Fund. In addition, a bank or trust depository arrangement with the Custodian will be utilized to accept and hold cash prior to allocating it to Managers 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 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, the General Counsel of the System, the System's Staff, Investment Consultant(s), Managers and the 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. Act in accordance with these Guidelines and ensure that the Fund is invested in a manner consistent with the Guidelines;

4. 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

5. 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. Trustees shall give consideration of the following factors as they relate to System's investment strategy:

   (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.

Every investment will be subject to strict due diligence. Notwithstanding the performance of such due diligence, the determination of whether prudence has been exercised with respect to an investment decision shall be made by taking into consideration the investment of all the assets of the Trust or all the assets of the collective investment vehicle, as applicable, over which the Board has management and control, rather than considering the prudence of a single investment of the Trust or collective investment vehicle, as applicable.

In its role as a fiduciary, the Board may from time to time 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 pursue litigation where the fund has been harmed due to securities fraud or other violations. In doing so via class action lawsuits, the Fund generally will not typically 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 file notice of claim and monitor all such lawsuits and report to COAERS' Executive Director, as necessary. In addition, all Managers shall be notified by the Custodian of any potential or pending legal action.

IV. ASSET ALLOCATION

Asset Allocation

The Board, in conjunction with advice from Staff and Investment Consultant, is responsible for strategic asset allocation decisions. Asset allocation refers to the distribution of investments among financial instruments sharing certain fundamental and risk-based characteristics. The strategic asset allocation envisions that the Fund will seek to optimize expected return net of fees versus expected risk over a long-term investment horizon in providing the highest probability of meeting or exceeding the objectives set forth herein.

Periodic asset/liability studies provide the basis for changes to the Fund's strategic asset allocation. The Board will conduct these studies every five years (or more frequently if warranted by a material event in either the liability structure of the Fund or the capital markets) to review asset classes, return-risk assumptions, and correlation of returns with applicable benchmarks and across asset classes. Guidelines will be amended when a proposed investment strategy is adopted. During times of phased transition to a new strategic asset allocation, current values may deviate from the established strategic asset allocation.

A key objective of the asset-liability study shall be the development, through statistical modeling techniques, of a diversified portfolio that specifies prudent ranges of portfolio exposures and a target position for each asset class. The normal portfolio mix will represent the portfolio that is expected to meet the Board's investment objectives as specified herein. Each asset class allocation percentage has a target position within the overall portfolio and a maximum and minimum range around that target. All percentages refer to market value.

Each asset class is described by an associated benchmark that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or

more complex asset classes the benchmark serves as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio. Those benchmarks, along with the allocation ranges, are identified in the table below and are referred to as the Policy Benchmarks.

Asset Class Diversification

Within the broad definition of equities and fixed income for allocation purposes, the Board has found it prudent to diversify within asset classes. The sub-asset class categories and their proportion of the total asset class are shown below. While diversification is prudent, over-diversification can be detrimental to the Fund. Therefore, the Board shall not consider an asset class for inclusion in the strategic asset allocation that does not warrant 5% of the total with the exception of cash.

Based on its most recent determination of the appropriate risk tolerance of the Fund and its long-term return expectations, the Board in consultation with the Staff and Investment Consultant has established the strategic asset allocation and rebalancing threshold percentages for the Fund shown below.

Primary Asset Class Targets & Rebalancing Thresholds				
Asset Classes	Min	Target	Max	Benchmark Index
Global Equity	55.0%	60.0%	65.0%	MSCI All Country World Net
Fixed Income	20.0%	24.5%	30.0%	Bloomberg US Aggregate Bond
Real Assets	5.0%	10.5%	15.0%	Target weighted blend of sub-asset class benchmarks
Risk Parity	2.5%	5.0%	7.5%	60% MSCI ACWI Net & 40% Bloomberg Global Aggregate
Cash	0.0%	0.0%	1.0%	90-Day T-Bills
Sub-Asset Class Targets & Rebalancing Guidance				
Asset Classes	Min	Target	Max	Benchmark Index
US Equity	25.0%	30.0%	35.0%	Russell 3000
International Equity	15.0%	20.0%	25.0%	MSCI All Country World x-US Net
Emerging Market Equity	5.0%	10.0%	15.0%	MSCI Emerging Markets Net
Fixed Income	20.0%	24.5%	30.0%	Bloomberg US Aggregate Bond
Real Estate	2.5%	5.5%	9.5%	NCREIF ODCE
Infrastructure	0.0%	4.0%	6.0%	Alerian MLP Index
Commodities	0.0%	1.0%	2.5%	Bloomberg Commodity Index
Risk Parity	2.5%	5.0%	7.5%	60% MSCI ACWI Net & 40% Bloomberg Global Aggregate

Rebalancing

Market movements may cause the current asset allocation to differ from the strategic target, and the desire to maintain the strategic target must be weighed against the costs of rebalancing. Therefore, a range has been set for the current allocation of the Fund to allow

for the fluctuations that are inherent in market values of portfolio investments. In addition to targets established for the major asset classes, targets are also set within each sub-asset class.

During times of phased transition to a new strategic asset allocation, interim rebalancing targets and procedures may be chosen until the implementation of the new strategic asset allocation is completed. In addition, Staff and Consultant may each recommend to the Board temporary deviations from these targets if it is believed that doing so can be reasonable expected to further the investment objectives set forth in this Policy or to more effectively implement the program.

On a monthly basis the Custodian shall report market values for all accounts to the Staff and Investment Consultant to serve as the basis for rebalancing calculations. When market movements shift the current asset allocation outside the prescribed ranges, Staff and the Investment Consultant are authorized to rebalance the Fund back toward its strategic targets.

Once Staff confirms from custodial month-end data that the market asset allocations have moved outside the established ranges for both the current and prior month, rebalancing will be effected approximately halfway to the target. Within asset classes, assets will generally be reallocated to achieve sub-asset class level target allocation percentages. These rebalancing cash flows will be reported to the Trustees via the next meeting of the Investment Committee.

The amounts and timing of transfers will generally be determined by factors such as liquidity, implementation costs, etc. Any elements of the rebalancing plan may be discontinued once it is determined that percentage allocation targets have been achieved. Staff will work with the Custodian and the Managers of the Portfolios involved in the implementation of the rebalancing plan to provide any necessary instructions.

V. INVESTMENT RISK MANAGEMENT

The Board recognizes that accepting investment risk is critical in meeting the Fund's long-term return objectives. While acknowledging that investment risk cannot be eliminated, the Board seeks to ensure that investment risks are adequately rewarded over time and that return expectations are consistent with that risk.

Traditional quantitative measures of risk shall be regularly measured and monitored. Based on a 4.75% real return objective (inflation + 4.75%), the Fund's long-term expected standard deviation is approximately 10%-12% with a corresponding 1-in-20 (5% probability) annual Value-at-Risk (VaR) of roughly 16%-20% annually. To ensure a level of investment efficiency on par with best-in-class peers, the overall Fund will seek to achieve a Sharpe Ratio of at least 0.5 over the periods of five years or longer.

Risk monitoring activities should also consider downside risk, which for these purposes is considered to be the risk of significant loss of capital. However, since many risk models assume normality of returns and have failed to predict the severity of the draw down, it is imperative to monitor the Fund's downside risk using scenario analysis and stress testing. These techniques can provide insight into potential future downside risks by utilizing historical

market dislocations and potential future events to consider the resulting impacts on the portfolio.

The Board takes several steps throughout the investment process to identify, measure, and report on investment risk at a variety of different levels.

- **Asset Allocation Risk:** the Board has set the Fund's strategic asset allocation as well as ranges around the targets and procedures for rebalancing when actual allocations drift away from targets due to natural market cycles. Long-term asset allocation targets are set as part of the asset-liability study process with the goal of establishing an investment program that will allow the Fund to meet its long-term liabilities through investment growth as well as contributions. The Board will monitor the asset allocation relative to targets and ranges set forth elsewhere in this Policy. This monitoring will occur no less frequently than quarterly.

- **Liquidity Risk:** the Board acknowledges that sufficient liquidity must be maintained to meet benefit payment obligations. The allocation to highly liquid investments will be monitored on a quarterly basis, as will the Fund's anticipated contributions, benefit payments, and any capital calls or other investment commitments. Liquid investments may be used to meet shorter term cash needs and due consideration will be given to transaction costs when raising cash to meet benefit payments and other commitments.

- **Active Risk (Tracking Error):** active managers are to be selected primarily for their potential to add value above a benchmark index on a risk-adjusted basis. These managers are provided a target level of active risk (i.e. tracking error), which they can employ when attempting to outperform their assigned benchmark. Active risk is most relevant for the publicly traded asset classes and will be measured on an ex post, or backward looking basis. Managers will have a target active risk level as well as a normal range and any deviation from active risk ranges will be brought to the Board's attention along with the justification and recommended remedy. Tracking error constraints relative to assigned passive benchmarks are established for the Fund and its actively managed portfolios as follows:

	Neutral	Maximum
Total Fund	100 bps	200 bps
US Equity	200 bps	500 bps
International Equity	400 bps	700 bps
Emerging Market Equity	500 bps	800 bps
Fixed Income	100 bps	200 bps
Infrastructure	350 bps	500 bps
Commodities	350 bps	500 bps
Risk Parity	500 bps	800 bps

- **Currency Risk:** to the extent that the Fund invests extensively in international markets, it is critical that the portfolio return volatility associated with exchange rate risk be effectively managed. Currency risk is the possibility of a negative currency return as a result of adverse movements in foreign exchange rates. The Board may set forth a

structure and implementation plan to apply currency hedge ratios to the Fund's non-dollar exposures based on the desired strategic level of currency risk for the Fund.

- **Leverage and Derivative Risk:** the Board recognizes that leverage is inherent in some investment strategies which employ various derivative instruments to achieve their target market exposures. Leverage is not prohibited, but will be monitored at the Fund level and in portfolios where derivatives or other forms of leverage are employed such as Commodities, Real Estate and Risk Parity.

- **Statutory Risks:** the Board will track compliance with any and all statutes or laws related to the investment program.

VI. PERMISSIBLE INVESTMENTS

The investment vehicles listed below are currently specifically permitted under this Investment Policy. They are categorized as equity, fixed income, or real estate to indicate how they are classified for purposes of the asset allocation guidelines in a preceding section. Unless given authorization in writing, managers are allowed to invest only in the security types listed below for the asset classes for which they have been hired and, when included in this Investment Policy or the IMA, the assigned benchmark.

Equities
- Common Stocks
- Preferred Stocks
- Exchange traded funds (ETFs)
- Real Estate Investment Trusts

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 Assets
- Open Ended Commingled Funds
- Master Limited Partnerships
- Commodity Futures

1. The above assets can be held in commingled funds as well as separate accounts. If held in a Board-approved commingled fund or mutual fund, the prospectus, organizational document, or Declaration of Trust takes precedence over this document solely to the extent of any conflict with this document, unless provided otherwise in a written agreement between COAERS and the Manager. If held in a collective investment trust, the terms of the relevant group trust governing such collective investment trust shall be incorporated by this reference and become a part of the System's plan solely with respect to the management of the assets held by such collective investment trust.

2. SEC Rule 144(a) fixed income securities are allowable but private placement bonds are not.

3. No investment may be made that is prohibited by the Internal Revenue Service, the Department of Labor, or other federal or state law.

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 following portfolio concentration limitations will apply.

   - The securities representing equity of any one company shall not exceed 6% of the market value of any manager's Portfolio.
   - Fixed income securities of any issuer may not exceed 6% of the Portfolio 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 a federal agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed 20% of the Portfolio at market (such securities include, but are not limited to GNMAs).
   - The direct debt of the US government (Treasury bonds, bills and notes) shall not be restricted as a percentage of the Portfolio.

6. Quantitative or Enhanced Index strategies may deviate from the above concentration limitations provided the manager is following a pre-established process and relative position limitation (i.e. index weight plus 1%) authorized in the IMA or specifically granted as an exception within this Policy. The Manager shall monitor the account and shall promptly inform the Staff and Investment Consultant if the concentration restriction noted above is exceeded regardless of authorization or specifically granted exception.
7. Derivatives are permissible for the purpose of equitizing cash (e.g., an overlay program, reducing cash exposure, or in Portfolio transitions and rebalancing activities).
8. 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.
9. 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 these securities are the same as for any other equity security.
10. Managers may be hired to invest primarily in closed-end and open-end funds as approved by the Board. In such accounts, closed-end and open-end funds are permissible holdings.
11. Risk parity, commodities, and multi-asset managers are authorized to manage portfolios that gain exposure to asset classes by investing in futures and other derivative instruments.

VII. PORTFOLIO GUIDELINES

Eligible Holdings

All portfolios will be invested exclusively as described under Section VI Permissible Investments. Managers are expected to avoid market-timing decisions and be fully invested consistent at all times except as noted below. All acknowledge that the effects of cash holdings on Portfolio performance will be included for the purposes of performance evaluation.

Equity portfolios will be invested in publicly traded marketable equity securities or via strategies that otherwise seek to achieve equity-like levels of risk. Initial Public Offerings are permissible investments but restricted or letter stock are not permitted. Equity portfolios are to be fully invested (defined as less than 5% in cash equivalents) at all times, though cash may be held briefly between the time when a security is sold and a decision is made as to which new security should be purchased. If a manager remains less than fully invested for more than 30 days, the manager shall notify Staff and the Investment Consultant in writing.

Fixed income portfolios will be invested in publicly traded fixed income securities. 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 this Investment Policy or the IMA. Fixed income Managers are exempt from the requirement to not have cash exceed 5% of the Portfolio value to allow the use of "barbell" strategies in constructing a fixed income Portfolio.

Managers shall not initiate any transaction that is in violation of this Policy. In the event that changes beyond the control of the Manager (e.g. changes in benchmark construction, change in credit rating, and change in security prices) occur that cause the Manager's Portfolio to violate these guidelines, the Manager shall promptly notify Staff and the Investment Consultant. If the Manager (as a fiduciary) deems it in the best interest of the Fund to remain in violation of the policy, the Manager shall prepare a written recommendation to Staff regarding the violation. Following the receipt of the written Manager recommendation, Staff shall accept, amend, or reject the recommendation and provide notification to the Board. The Manager shall be notified whether or not the recommendation has been accepted, and in the event that it is not accepted the Manager will be provided with written instructions. During the period between the occurrence of the violation and the notification of the determination, the Manager (as a fiduciary) shall act as it deems appropriate in the sole interest of the plan's participants and beneficiaries.

Diversification

The diversification of the equity securities held in the Portfolio among sectors and issuers is the responsibility of the Manager. The Manager shall comply with the concentration limitations as presented under this Policy and the applicable Investment Management Agreement.

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

Strategy Consistency

The most important feature any individual manager brings to a multi-manager diversification of the Fund is strategy adherence. Fundamental portfolio characteristics and strategy benchmark comparisons will be monitored quarterly for adherence to the Manager's identified strategy.

For equity managers, the capitalization of each stock in the portfolio shall be within the capitalization range of the assigned benchmark when purchased. If aggregate holdings equal to or higher than 10% of the portfolio market value fall outside the capitalization range of the

assigned benchmark for a period of over 30 days, written notification and justification shall be provided to Staff and Investment Consultant.

For portfolios managed within a commingled or mutual fund structure, special reporting and notification arrangements may be granted by the Board on a case by case basis (e.g. notification of exception as of quarter-end, etc.).

Currency management is at the discretion of the active managers with international exposure.

Fixed Income Portfolio Quality

Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody's or BBB- by Standard & Poor's or Fitch) by any of the three designated rating agencies unless authorization is granted to a Manager by the Board. Split-rated securities in which the middle 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.

The issues of individual entities rated AAA to Aa3 (Moody's) or AA- (S&P, Fitch) may have a 7% position at market value. Issues of individual entities rated below Aa3 (Moody's) or AA- (S&P, Fitch) may have a 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 Section IV. Paragraph 5, but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.

If specific Managers are given latitude to invest in securities issued by non-U.S. entities, the same quality restrictions shall apply.

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

Securities Lending

The Board may select an agent or agents to lend eligible securities held in portfolios. 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. The securities lending program shall in no way inhibit the trading activities of the Managers.

All loans shall be fully collateralized with cash, government securities or irrevocable bank letters of credit. Collateralization of such loans shall be at least 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 agent must have written/internal guidelines for the investment of cash collateral. The Board will review these guidelines and incorporate them into its agreement with the securities lending agent. A copy of the agent's cash collateral investment policy shall be sent to the System at least annually and any other time a material change is made to the document.

Income earned through the securities lending in separate accounts will be deposited monthly in a specified account and invested in short-term instruments until allocated by the Board or used as needed to meet the liquidity requirements of the System.

For commingled funds where lending is performed by the Manager, Staff is authorized to adjust the allocation between lending and non-lending share classes to manage the risk profile of the program. The Board shall be notified of any such changes via the next regular meeting of the Investment Committee.

VIII. REPORTING, EVALUATION AND REVIEW

Performance evaluation of the Fund is designed to monitor the strategic asset allocation and manager selection decisions. The purpose is to test the continued validity of these decisions and to trigger an analysis of underperformance or undue volatility.

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

1. Asset allocation remains reasonable and each Manager's strategy remains consistent with the Guidelines and the process represented by the Manager.
2. Managers performed in accordance with the Guidelines and objectives set forth herein and satisfactorily when compared with peers and assigned benchmark indices.
3. On an annual basis, the Staff and Consultant will review Manager proxy voting procedures and proxy voting records as submitted in accordance with this Policy; and
4. On an annual basis the Staff and Consultant will review commissions paid, commission rates charged and brokerage firms used by Managers. Compliance with specific directives regarding commission cost management will be regularly reviewed.

Staff and Investment Consultant, in consultation with the Executive Director, shall on a quarterly basis provide to the Board in writing a summary of the Fund's performance. This report shall include a comparison to performance benchmark objectives as well as the investment performance of other appropriate funds. Both absolute and relative results will be considered in the evaluation of the Fund's investment performance. The Investment Consultant will conduct an in-depth performance attribution analysis, which will quantify which allocations, strategies, managers and/or sectors added or detracted from the overall performance.

Total Fund

The passive benchmark will be set at 65% Equities (MSCI ACWI Net)/35% Bonds (Bloomberg Global Aggregate USD Unhedged Index) to reflect the general growth and income mix prevailing among institutional investment portfolios as reflected in passive investable indexes. Outperformance versus this passive benchmark should represent the value-added by the Board through asset allocation and asset class management. This passive performance benchmark will be reviewed annually for potential adjustment. However, this passive benchmark is not expected to change except to reflect substantial changes in either long-term market opportunities and/or asset allocations among the System's institutional peers.

The Fund's total return after fees should exceed the total return of the Policy Index on a risk adjusted basis. The Policy Index will be a composite of asset class benchmarks weighted according to the proportions of the strategic asset allocation. Primary emphasis is to be placed on risk-adjusted absolute rates of return net of fees. The baseline time period for achieving these objectives is five years, though shorter and longer time periods should also be considered.

Asset Class Composites and Investment Managers

1. The total return of composites and manager portfolios should rank above the peer median on a risk-adjusted absolute and relative basis.
2. Over five years, the long-term objective for each composite is to exceed, after fees and on a risk-adjusted basis, the total return of the assigned benchmark.
3. Passive strategies are expected to match the gross of fees return of their assigned benchmark and before accounting for any securities lending income with low amounts of tracking error.

Shorter term examinations of each Manager's performance will focus on strategy adherence, peer comparisons and assigned performance benchmarks.

Appendix I
Summary of Specific Manager Guidelines

For the purposes of performance evaluation, current COAERS Investment Managers are assigned benchmark indices and peer universes as shown below. They are also given tracking error budgets to achieve target levels of alpha, defined as excess return above the assigned benchmark net of fees.

Investment Manager	Benchmark Index	Expected Net Alpha	Expected Tracking Error	Peer Universe
Intech	S&P 500	0.8%	2.0%	US Large Cap
Northern Trust Asset Management	SciBeta US MBMS Four-Factor EW	0.0%	0.0%	US Large Cap
Northern Trust Asset Management	SciBeta US High Factor Intensity MBMS Six-Factor EW	0.0%	0.0%	US Large Cap
Mellon	S&P 500	1.5%	3.0%	US Large Cap
LGIMA US Small Cap	Russell 2000	0.0%	0.0%	US Small Cap
1607 Capital Partners	90% MSCI EAFE Net & 10% MSCI EM Net	2.0%	5.0%	International
Sprucegrove	MSCI EAFE Net	2.0%	5.0%	International
Walter Scott	MSCI EAFE Net	2.5%	7.0%	International
Mondrian	MSCI EAFE Small Cap Net	2.8%	7.0%	Int'l Small Cap
LGIMA Sci Beta EM	ERI SciBeta EM MBMS Four-Factor EW	0%	0%	EM Equity
Baillie Gifford	MSCI Emerging Markets Net	2.0%	5.0%	EM Equity
Agincourt	70% Bloomberg US Aggregate & 30% Bloomberg US Intermediate Govt. Credit	0.5%	1.0%	US Fixed Income
Northern Trust Asset Management	Bloomberg US Aggregate Bond	0.0%	0%	US Fixed Income
Principal Real Estate	NCREIF – ODCE (Open End Diversified Core Equity)	N/A	N/A	Core Real Estate
AQR	60% MSCI ACWI & 40% Bloomberg Global Aggregate	2.0%	5.0%	Global Risk Parity
BlackRock	Custom benchmark specified in the IMA that seeks to approximate the Trust's policy index	1.5%	3.0%	Global Multi-Asset

Managers are permitted to deviate from the Guidelines of this Investment Policy only if the Board approves the deviation in writing. Below is a listing of such approvals currently:

1607 Capital Partners – International Equity

In that 1607 invests in listed closed-end funds which are typically diversified equity portfolios, the portfolio concentration limits for individual holdings shall be 20% at both cost and market. Index exchange-traded funds (ETFs) used for the purpose of achieving international equity market exposure (limited to country, region, or overall index trackers) as part of the initial funding of the account or subsequent additions to the account shall not be subject to portfolio concentration limitations.

Additionally, due to the need to own such funds at times when opportunities within the closed-end fund universe are limited, the portfolio concentration limit for individual ETFs shall be 10% at cost. In extreme cases where the manager feels the necessity to have more than 10% in any single ETF, approval by Staff (as delegated by the Board) would be required. If aggregate ETF exposure reaches greater than 30% of the market value of the portfolio, 1607 will provide timely written notification to COAERS.

Furthermore, in recognition that some of the closed-end funds in which 1607 invests may employ leverage in their process, the 5% cash limitation from Section VI, Eligible Holdings paragraph two is raised to 10%.

Finally, in recognition that the market capitalization of the underlying holdings of closed-end funds may not be timely available to 1607, requirements under Section VI, Strategy Adherence, paragraph two, relating to market capitalizations shall be modified to require monthly estimates of capitalization ranges.

BlackRock

BlackRock is authorized to allocate a total of up to 10% to vehicles that invest in high yield fixed income securities and/or emerging market debt in pursuit of the established alpha target.

Mellon – Dynamic US Equity (DUSE) strategy

This fund is authorized to invest in futures and other derivative instruments to carry out the strategy as described in the relevant commingled fund documents.

Appendix II
Site Visits

Site visits are considered a key part of the System's investment decision making process to ensure that proper initial and ongoing due diligence is conducted with respect to investment related service providers and to fulfill the fiduciary responsibilities of the System's fiduciaries. The purpose of site visits is to provide a means for these fiduciaries to assess the current state of the process, personnel, operations and facilities of both retained and prospective investment service providers including, but not limited to, investment managers, custodians, and investment consultants.

A primary goal of these visits is to provide the Board with valuable information and insights, which is often best gathered by an on-site examination of the offices of managers, custodians, and other service providers. While presentations conducted in the System's offices may provide some level of information regarding current or prospective investment service providers, proper due diligence is best achieved by conducting site visits to verify information received and to inform the investment process further.

Common examples of areas of onsite appraisal would include consistency of investment philosophy, management's ongoing commitment to the business, staffing levels and turnover, technology infrastructure, and the suitability of facilities. Communications with principals and staff may also seek to determine the degree of consistency of between what has been stated in any representations made to the System's representatives and what the site visit may reveal, including compliance with Investment Policy.

Routine site visits will be made to each retained service provider every five years, or more frequently if necessary. These visits will be planned at the convenience of the selected site visit team. Site visits will be made to allow the team to view firm's office procedures and practices. It is to be understood by all involved parties that these visits are for the purpose of conducting formal due diligence rather than providing a venue for receiving marketing presentations.

Other basis for Site Visits would include diligence on a prospective service provider and to assess concerns and/or problems with performance, staffing, or other significant issues. Site visits may also be conducted when traveling, for any reason, when nearby a service provider's office(s).

Common areas of inquiry during a site visit would include:

- visit with all persons involved with the COAERS portfolio
- visit with all firm principals in the office at time of visit
- visit with custodian bank liaison
- evaluate the firm's current client roster
- meet trading staff and review trading process
- attend a meeting of the firm's investment committee
- review current issues in markets and their impact on the COAERS portfolio
- discuss other products available through the firm
- examine the firm's other lines of business

Site visit teams may include up to four Trustees at the discretion of the Investment Committee Chair, who may consult with the Board Chair regarding team composition or other aspects of the site visit. No more than two members of the Investment Committee may be appointed to a site visit team. However, no decision-making authority is vested with the site visit team. Staff shall prepare a written report summarizing the site visit findings for the next regular Investment Committee meeting.

The Chief Investment Officer and the Investment Consultant should be included on all site visits to provide continuity. These individuals interact with all parties involved in the visits and will provide historical information regardless of team composition. The Executive Director may participate in any site visit at his or her discretion. Funding for upcoming site visits will be considered by the Board during the annual budget process, and site visits shall be conducted in accordance with the System's Code of Ethics.

Appendix III
Manager Reporting Requirements

General:

Managers will assist the System in monitoring the Portfolio and applicable data for compliance with the Guidelines. The Manager may be required to provide information in addition to that listed below as may be deemed necessary by the Board, the Investment Committee or Staff. Managers shall immediately notify Staff and the Investment Consultant of any changes in the primary personnel assigned to the Portfolio, who shall in turn provide notification to the Board. The form, content and organization of the report for each respective Manager shall be presented as detailed in this appendix.

Annual Reporting Requirements:

Each Manager who complies with the CFA Institute Trade Management Guidelines and CFA Institute Soft Dollar Standards will annually provide COAERS attestation of compliance and all required disclosures. If a Manager determines that it is no longer in compliance with either the CFA Institute Trade Management Guidelines or the CFA Institute Soft Dollar Standards, the Manager shall promptly notify COAERS and, without waiting for annual reporting deadlines, promptly provide COAERS with disclosures for Managers who do not claim compliance as described in the following paragraph.

Each Manager who does not claim compliance with the CFA Institute Trade Management Guidelines and the CFA Institute Soft Dollar Standards shall annually disclose to COAERS the areas of non-compliance in particular noting and detailing the extent to which any area of non-compliance impacts trading for the investment product in which COAERS is invested.

Each Manager shall:

- provide information and documentation on specific broker transactions as requested.
- keep accurate records of proxy voting of and provide such information upon request.
- report annually to the Board in writing as to actions taken with regard to proxy voting issues in cases where the Manager votes in opposition to company management.
- furnish the System and the Investment Consultant a current copy of the approved Manager's SEC ADV Form annually when filed, and thereafter as and when amended.
- furnish documentation of the Manager's valuation methodology.
- furnish an annual summary of commission recapture activity, if applicable.
- report in writing any information required under the Board Approved Policy C-3 "Code of Ethics" Section VI.C.

All portions of Annual Reporting are to be combined and submitted as an attachment to the 4th quarter reporting materials.

Quarterly Reporting Requirements:
The form, content and organization of the report for each respective Manager shall be as follows:

1. On the first page of the report, the guidelines, objectives and other measurements from the Investment Policy and any pertinent items from the IMA will be listed. Verify compliance status on

a point-by-point basis. The Manager may also summarize this section to explain the Manager's position on compliance. **Sign and date this page.** If the Manager recommends any change be made to the Guidelines, each suggested change and the rationale behind each change shall be listed.

2. Current Market Values & Investment Performance: Provide Portfolio returns and composite performance. Disclose the highest performing and the lowest performing account for all time periods. If there is a dispersion of returns among the accounts, what is the source of dispersion? How is dispersion controlled among accounts? Use formats *Market Value and Asset Growth Summary*, and *Total Fund Rates of Return*, to provide this information.

3. List for each of the last quarter, the calendar year-to-date, and last year the total commissions generated in the Portfolio. Breakdown as follows:

	Most Recent Quarter	YTD	Prior Year
Discount Brokers			
Full Commission Brokers (list individually also)			

4. For each full commission broker, separately list the amount spent each year with that broker, the soft dollar total, and a description of benefits received for the commissions paid.

Portfolio Appraisal and Transactions:

1. Provide an asset statement to include the following for each security:
   - Name
   - Number of shares
   - Current market value per share
   - Total market value for security
   - % of total market value
   - Gain/loss for each security
   - Categorize by sector and total at the end

2. List all purchases and sales for the period. For each sale show the following:
   - Sales price per share
   - Total proceeds from sale
   - 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 deemed appropriate with regards to your particular strategy. It is not necessary for the Manager to compare its strategy of management to others unless it impacts the investment strategy. Focus this section on the particular market environment applicable to the Portfolio.

Provide a brief discussion of market liquidity for the portfolio during the quarter, including a basis point estimate of the cost to liquidate 10% of the portfolio.

Organizational Issues:

1. Discuss the progress and the changes of your firm over the last three years. Complete 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 responsible for the management and investment of the Portfolio and the responsibilities of each departing 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 and if the additional capabilities for these new Products were 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 of the above areas. What percentage of the Manager's time is spent in each area (total needs to add to 100%).
6. Has a cap been placed on assets under management in this product? Why or why not?

Proxy Voting:
Domestic equity managers shall report and list, on a quarterly basis, the proxy votes by security that your firm voted against management.

Regulatory Compliance Reporting:
Combine with your quarterly report a copy of any regulatory or compliance-related reporting you have provided the System during the quarter.

Reconciliations of Assets and Returns
Provide a brief discussion of your process for reconciling portfolio assets with our Custodian and portfolio returns with our Investment Consultant.

Market Values and Investment Performance:

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

	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 the Custodian's data. Complete market value reconciliation with the Custodian in writing and an explanation must be provided if your market value does not match.

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

	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.

Specific Instructions for Index Fund Managers:

Index Fund Managers' Reports

General:

The Index Fund Manager will assist the monitoring of the Portfolio for compliance with the IMA. The Index Fund Manager will invest in stocks to "mirror" the applicable index. For this reason, the investments will be made by sector, category, and strategy 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, Investment Committee, or Executive Director. Index Fund Managers shall immediately notify Staff and the Investment Consultant of any changes in the primary personnel assigned to the Portfolio, who shall in turn provide notification to the Board.

Investment Policy Compliance & Performance Reporting:

1. On the first page of the report, list the guidelines, objectives and other measurements from the Investment Policies 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 COAERS' portfolio returns and composite performance on the assigned product using formats *Market Value and Asset Growth Summary*, and *Total Fund Rates of Return.*

Portfolio Appraisal and Transactions:

On a quarterly basis, each Index Fund Manager will report the return of the Portfolio compared to the Index/contractual benchmark.

Annually, in the 4th quarter report, the Index Fund Manager additionally shall provide the methodology of portfolio valuation and may provide:

1. An asset statement for each security listing:
    - Name
    - Number of shares
    - 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
- A summary listing of stocks bought or sold.
- A summary of commission expenses and fees paid.

2. List all purchases and sales for the year. For each sale show the following:
   - Sales price per share
   - Total proceeds from sale
   - 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).

Organizational Issues:

1. Annually, in the 4th quarter report, the Index Fund manager will report the progress and changes in the function and organization of the manager over the last three years. The following table will be completed:

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 Manager over the next 3, 5 & 10 years?
3. List any and all personnel departures from the group responsible for investing and managing the Portfolio and the responsibilities of each departing person.
4. Discuss the growth in capabilities on a firm-wide basis as well as within the group responsible for managing and investing the Portfolio. 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 investment management, administration, research, firm management and marketing efforts separated within the Manager's Organization? Identify the key decision makers in each area. What percentage of the Manager's time is spent in each area (total needs to add to 100%).
6. Has the Manager placed a cap on assets under management in this Product? Why or why not?

Market Values and Investment Performance:

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

	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 the Custodian's data. Complete market value reconciliation is required with the Custodian in writing and an explanation must be provided if the market values do not match.

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

	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.

Specific Instructions for Real Estate Fund Managers:

Real Estate Fund Manager's Report

General:

The Real Estate Fund Manager will assist the monitoring of the Portfolio for compliance with the IMA. The Manager may be required to present information in addition to that listed below as may be deemed necessary by the Board, Investment Committee, or Executive Director. Managers shall immediately notify Staff and Consultant of any changes in the primary personnel assigned to the Portfolio, who shall in turn provide notification to the Board.

Investment Policy Compliance & Performance Reporting:

1. On the first page of the report, list the guidelines, objectives and other measurements from the Investment Policy and any pertinent items within the IMA. Verify compliance status on a point-by-point basis. The Manager may also summarize this section to explain the Manager's position on compliance. **Sign and date this page**. If the Manager recommends any changes be made to the Guidelines, each suggested change and the rationale behind each change shall be listed.

2. Current Market Values & Investment Performance: In all reports, provide the Portfolio returns and composite performance on the Portfolio using the formats *Market Value and Asset Growth Summary*, and *Total Fund Rates of Return.*

Portfolio Appraisal and Transactions:

1. Include the following in the quarterly report:
   - A full portfolio appraisal
   - A summary of any transactions
   - A summary of all valuation changes
   - A summary of fund income (rents)

2. Annually, the same reporting as quarterly, plus:
   - Audited financial statements
   - Provide methodology of Portfolio valuation.

Market Environment:

In this section, in the 4th quarter report, include information on the market environment, market analysis, sector analysis and/or other items deemed appropriate with regards to your particular strategy. It is not necessary to compare the strategy of management to others unless that strategy impacts the investment strategy. Focus this section on the particular market environment applicable to the Portfolio.

Organizational Issues:

1. Annually, in the 4th quarter report, 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 Manager over the next 3, 5 & 10 years?
3. List any and all personnel departures from the group responsible for the investment and management of the Portfolio and the responsibilities of each listed 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 Values and Investment Performance:

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

	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 the Custodian's data. Complete market value reconciliation with the Custodian is required in writing and an explanation is required if the market values do not match.

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

	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*							

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

Specific Instructions for Risk Parity Fund Managers:

Risk Parity Fund Manager's Report

General:

The Risk Parity Fund Manager will assist the monitoring of the Portfolio for compliance with the IMA. The Manager may be required to present information in addition to that listed below as may be deemed necessary by the Board, Investment Committee, or Executive Director. Managers shall immediately notify Staff and the Investment Consultant of any changes in the primary personnel assigned to the Portfolio, who shall in turn provide notification to the Board.

Investment Policy Compliance & Performance Reporting:

1. On the first page of the report, verify compliance with the investment guidelines described in the Private Placement Memorandum. **Sign and date this page**. If the Manager recommends any changes be made to the Guidelines, each suggested change and the rationale behind each change shall be listed.

2. Current Market Values & Investment Performance: In all reports, provide the Portfolio returns.

3. In addition to the reporting requirements set forth in these instructions, the Manager shall provide COAERS with the reports provided to all members of the Fund.

Portfolio Net Asset Value and Transactions:

1. Include the following in the quarterly report:
   - A full portfolio net asset value
   - A summary of net asset value changes
   - A description of whether there have been any impairments in liquidity necessary to meet participant redemption requests during the quarter, if such an impairment occurs.

2. Annually, the same reporting as quarterly, plus:
   - Audited financial statements
   - Provide methodology of Portfolio valuation.

Market Environment:

In this section, in the 4th quarter report, include information on the market environment, market analysis, sector analysis and or other items deemed appropriate with regards to your particular strategy. It is not necessary to compare the strategy of management to others unless that strategy impacts the investment strategy. Focus this section on the particular market environment applicable to the Portfolio.

Organizational Issues:

1. Annually, in the 4th quarter report, 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 Manager over the next 3, 5 & 10 years?
3. List any and all personnel departures from the group responsible for the investment and management of the Portfolio and the responsibilities of each listed 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 Values and Investment Performance:

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

	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 the Custodian's data. Complete market value reconciliation with the Custodian is required in writing and an explanation is required if the market values do not match.

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

	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							
Net of Fee Alpha							

Appendix IV
Policies Regarding Third Party Marketing; Political Contributions; Improper Influence; Placement Agents and Finders

1. Scope.

This Appendix applies to all COAERS investment transactions in which a Placement Agent or third party marketer or revenue sharing agreement or Finder is or may be involved, including new agreements (inclusive of follow-on and co-investments), extension of existing agreements, increase in funding or capital commitment to an existing relationship or Investment Manager, or an amendment that increases management fees or compensation under an Investment Management Agreement.

This Appendix IV also applies to attempts to influence COAERS investment decisions through contacts with Trustees, or contacts with, or a political contribution made for the benefit of, one or more Texas Elected Officials, and also applies to contacts with persons employed by any such Texas Elected Official.

If any provision of this Appendix conflicts with a provision of another policy adopted by the Board, the stricter provision shall apply.

In addition to all other requirements of this Appendix IV, all persons, firms, corporations and legal entities contacting any member of the Board or any office or employee of the System for the purpose of soliciting business with, or providing any service or Product to, the System, shall fully comply with Chapter 176, Tex. Loc. Gov't Code. Links to Chapter 176, Tex. Loc. Gov't Code and a copy of the Vendor Conflict of Interest Questionnaire can be found at http://www.coaers.org/disclosure.html.

2. Purpose.

The purpose of this Appendix is to safeguard the integrity of all COAERS investment transactions and conformity with the highest fiduciary, ethical, and legal standards by all parties involved. All investment decisions made by the Board and the Staff must be based solely on the merits in conformity with fiduciary standards and applicable law. All recommendations made regarding any Fund, Manager Party or investment, and all recommendations by the Investment Consultant, Investment Managers, and advisers, must be based solely on the merits after the necessary due diligence. All investment decisions and recommendations must be free of impropriety or improper influence and the appearance of either.

3. Philosophy.

The Board requires the Staff to obtain full disclosure regarding all known or suspected matters having the potential to harm COAERS's reputation or the integrity of COAERS's investment processes, or that could constitute unethical or unlawful conduct during the investment due diligence process.

4. Required disclosures.

At a minimum, all external Fund, Manager Party(s) and Investment Managers shall provide detailed written responses to the questionnaire attached to this Appendix as Exhibit "A" as early as reasonably possible in the due diligence process for a COAERS investment transaction. The Board may revise this Appendix or Exhibit "A" from time to time as it deems to be in the best interest of COAERS and consistent with the purpose and intent of this Appendix.

In addition, all Investment Managers, and all Funds and Manager Parties negotiating or dealing with COAERS regarding proposed investment services, shall provide a detailed description of the services to be performed by the Placement Agent and how the Placement Agent is used (e.g., with all prospects, or only with a subset of prospects). The System shall obtain a copy or summary of the terms of an agreement to compensate a Placement Agent for the due diligence file. The System shall provide all prospective Investment Managers with a copy of this Appendix V upon commencement of due diligence.

5. Contractual representations warranties and covenants.

Each Investment Manager shall represent and warrant to COAERS in the executed Investment Management Agreement that its responses in Exhibit "A" to this Appendix IV and to all questions or enquiries presented by the System, and in any supplemental responses are true, correct, and complete in all material respects, and shall also covenant to update any such information within 10 business days of any change in the information in the responses.

In addition, each Placement Agent shall fully disclose the terms of its arrangement with a Fund, or Manager Party, or Investment Manager for payment of a Placement Fee and any political contributions by the Placement Agent to any Texas Elected Officials, and shall certify as to the matters addressed in this Appendix, as applicable, to COAERS in a writing executed by an authorized officer that the disclosures required by this policy are true and complete in all material respects.

Each Investment Management Agreement shall provide COAERS with the option to receive a reimbursement of management or advisory fees equal to the amount of Placement Fees to be paid to any and all Placement Agents, and, in addition and not in the alternative, the right to terminate the Investment Management Agreement or withdraw without penalty from the investment vehicle or vehicles if any certificates or contractual representations, warranties or covenants relating to this Appendix have been breached.

6. Prohibitions.

No COAERS investment may be made if the Board, in consultation with legal counsel, determines that a disclosed contact with a COAERS Board member or Texas Elected Official, or a contribution to a Texas Elected Official, has created an unacceptable risk to the integrity and reputation of the COAERS investment program or has been made in violation of a COAERS policy or applicable law. A contact-based referral, without more, by a Trustee of either an investment opportunity or a prospective Investment Manager or Fund contact to the Executive Director or Chief Investment Officer does not constitute such a risk or a violation of this Appendix.

7. Reporting.

The System staff shall compile all responses to the questionnaire and report the results to the Board at least annually. Reports shall include the amounts and recipients of any political contribution or Placement Fee and the relationship of the recipients to the Placement Agent or Texas Elected Official, as applicable.

8. Definitions applicable to this Policy.

Affiliate – means a person or entity controlled by or under common control with another person or entity.

Fund or Manager Party – includes, (a) as to a private investment fund, a fund sponsor, the general partner, managing member, or its equivalent with respect to a fund, fund sponsor, or fund management firm, (b) as to an external, separate account investment manager, the asset management entity and the parent of such asset management entity, and (c) as to (a) and (b), any Affiliate, principal, owner, officer, shareholder, director, managing member, or employee having authority to act on behalf of such fund or firm.

Placement Agent – includes any third party, whether or not affiliated with a Fund or Manager Party, that is a party to an agreement or arrangement (whether oral or written) with a Fund or Manager Party for the direct or indirect payment of a Placement Fee or revenue sharing arrangement in connection with a COAERS investment. Any other person or entity who claims a Placement Fee or who by agreement with a Placement Agent will share in a Placement Agent's Placement Fee is deemed to be a Placement Agent whether or not the person or entity is an Affiliate, principal, owner, officer, shareholder, director, managing member, or employee of a Placement Agent. A "finder" is a Placement Agent.

Placement Fee – includes any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a Placement Agent.

Relative –means a spouse (including an ex-spouse), parent, child (including adopted), sibling, niece, nephew, aunt, or uncle.

Texas Elected Official – includes a member of United States Congress or Senate that is elected from the State of Texas, the City of Austin or the County of Travis, including but not limited to the governor, lieutenant governor, comptroller of public accounts, attorney general, and any member of the Texas Legislature, the mayor, member of the city council, county judge or county commissioner and also includes a campaign fund or political action committee, or PAC for an elected official, and a Relative of a Texas elected official.

COAERS Person – means any person listed on Exhibit A attached to Appendix III to this Policy or to any other due diligence document, and includes without limitation any current or former COAERS board member, the Executive Director, the Chief Financial Officer, the Chief Investment Officer, the General Counsel, or any Investment Consultant or actuary, any other outside counsel engaged by COAERS, and any Relative of a COAERS Person, whether or not listed on an Exhibit A, COAERS Persons.

Appendix IV – Exhibit "A" -- Questionnaire

Third Party Marketing; Political Contributions; Improper Influence; Placement Agents and Finders

Capitalized terms are defined in main text of policy.

A) Contacts with State or City Officials; Political Contributions

Has any person lobbied, communicated with, or made political contributions during the past three years on behalf of the Fund or Manager Party to a Texas Elected Official in connection with a prospective investment transaction with a Texas state or City of Austin affiliated investment entity, including COAERS?

1) If the answer is "yes," please provide a complete list of the name(s) of the entities and individual(s) involved, the approximate dates of the contributions, the amounts of the contributions, a summary of the contacts or communications, and the nature of the discussion in regards to the investment with any Texas state investment entity, including COAERS.

B) Contacts with COAERS Board Members.

Has any person lobbied or otherwise communicated on behalf of the Fund or Manager Party with a current or former member of the COAERS Board of Trustees during the past two years for the purpose of asking the current or former member to seek to influence a decision by the COAERS investment staff or a COAERS advisor or Investment Consultant to recommend that COAERS invest?

1) If the answer is "yes," please provide a complete listing of the name(s) of the entities and individual(s) involved, the approximate dates of the contacts or communications, and the nature of the discussion in regards to this investment.

C) Placement Agents and Placement Fees.

Is or was the Fund or Manager Party a party to any agreement or arrangement (whether oral or written) to pay a Placement Fee to or for the benefit of any Placement Agent in connection with COAERS's prospective investment in a fund or engagement of an external manager?

1) If the answer to C) is "yes," please provide a copy of the written agreement or agreements creating the obligation to pay a Placement Fee. If the agreement is not written, please provide a written summary of the agreement. Additionally, please state the amount of the Placement Fee (or the formula for its determination if the amount is not yet determined) and the date of its payment or anticipated payment.

2) If the answer is "yes," please list the name(s) of the person or entity. If the party to the agreement is an entity, please also list the names of the principal owners, officers, directors, or managing members of the Placement Agent and provide a resume for each such person.

3) If the answer is "yes," state whether the Placement Agent, or any of its Affiliates, is registered as a lobbyist with any state government or the federal government and identify the registrants and the applicable jurisdictions where registered.

4) Will or did any COAERS Person or any Relative of a COAERS Person receive, has any such person received, or might any such person receive, any compensation or payment, directly or indirectly, of a commission, finder's fee, or any other consideration or benefit to be paid to a Placement Agent (a "Placement Fee") in connection with COAERS's investment? If the answer is "yes," please list the name or names of the COAERS Person or Relative of a COAERS Person and provide details about the terms of the Placement Fee.

5) Will or did any Texas Elected Official or a Relative of a Texas Elected Official receive a Placement Fee in connection with COAERS's investment? If the answer is "yes," please list the name or

names of the official and provide details about the terms of the Placement Fee, including the amounts and timing of payments.

6) Did (or will) any third party person or entity who is not employed or otherwise affiliated with a Placement Agent, including a current or former COAERS Person, either (a) recommend the Placement Agent or (b) receive a share of a Placement fee or any other economic benefit in connection with COAERS's investment, whether directly or indirectly through a Placement Agent engaged by you?

7) If the answer to 6) is "yes," please list the name of the person or entity, the relationship of the person or entity to the Placement Agent and your firm, and provide a description of the arrangement and the reason for the payment.

8) State whether the Placement Agent or any of its Affiliates is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or a similar agency outside the United States. Provide details about registration or explain why registration is not required.

The undersigned certifies, represents and warrants on behalf of the Fund or Manager Party that, to the best of its knowledge after due inquiry, (a) the foregoing responses to this questionnaire are true and correct and do not omit any statement or fact necessary to make any statement made not misleading in any material respect, and (b) no prior statements or representations, if any, whether oral or written, made on behalf of the Fund or Manager Party relating to the subject matter of this questionnaire in connection with COAERS's due diligence inquiries and a prospective investment management agreement or subscription to the fund, as the case may be, including any side letter agreements, was untrue or misleading in any material respect when they were made.

[Signature block for Fund or Manager Party]

Attachment: Exhibit A, COAERS Persons