

**PUBLIC SCHOOL TEACHERS'  
PENSION AND RETIREMENT FUND  
OF CHICAGO**

**STATEMENT OF INVESTMENT POLICY**

**REVISED April 2009**

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## INTRODUCTION

The Board of Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago (the "Fund"), working with Mercer Investment Consulting, Inc. ("the Investment Consultant") and the Townsend Group ("the Real Estate Investment Consultant"), have developed the following policies, objectives and guidelines for the ongoing management and evaluation of the Fund's investment program.

This Statement of Investment Policy serves the following purposes:

- Provides a written document of the Board's expectations regarding the Fund's investment program.
- Establishes objectives and guidelines for the investment of the assets which are consistent with the Fund's financial- and benefits-related goals.
- Outlines criteria and procedures for the ongoing evaluation of the investment program.
- Provides a communication vehicle for the investment managers.

This Statement is intended to be dynamic in nature and will be updated and revised as appropriate to reflect the Board's current investment program goals.

## ASSET ALLOCATION

The asset allocation policy developed herein is based on an evaluation of the Fund's ability to assume investment risk in its pension assets in light of its financial- and benefits-related goals and objectives and the Fund's liability structure.

In arriving at the current asset allocation policy, the Board, working with the Investment Consultant, evaluated the following factors:

- The Fund's current benefits structure and long-term goals regarding benefit security.
- Current and prospective funding sources and levels.
- The liability structure underlying the Fund.
- Actuarial methods and assumptions.
- Key elements of investment theory.
- Historical and prospective risk and return characteristics associated with various asset classes and investment management styles.
- The impact of changes in asset value on funding status and benefit security.
- The investment practices of other public pension funds.

Based on an analysis of the above factors, the Board has determined that the following asset allocation policy is currently appropriate for the Fund. This asset allocation policy will be reviewed annually and may be modified, if appropriate, in light of changes in the structure or goals of the Fund, the capital market environment or changes in the Illinois State Statutes under which this Fund is governed.

The "Allowable Range" found in the below policy is the result of a temporary expansion of the ranges due to the turbulent financial markets in 2008. The changes made to the allowable ranges will be reversed once market conditions improve.

## ASSET ALLOCATION POLICY

<u>Asset Class</u>	<u>Target Percent of Total Fund</u>	<u>Allowable Range</u>
Large Capitalization Equity	<b>24.0</b>	+/- 6.0%
-Index	9.0	
-Core	5.0	
-Value	5.0	
-Growth	5.0	
Mid Capitalization Equity	<b>3.5</b>	+/- 2.0%
-Index	2.0	
-Core	1.5	
Small Capitalization Equity	<b>9.0</b>	+/- 3.0%
-Index	4.5	
-Value	2.25	
-Growth	2.25	
All Capitalization Equity	<b>4.0</b>	+/- 3.0%
International Equity	<b>22.0</b>	+/- 5.0%
Private Equity	<b>3.0</b>	+/- 3.0%
<b>Sub-Total Equity</b>	<b>65.5</b>	
Public REIT	2.5	+/- 2.0%
<b>Total Equity</b>	<b>68.0</b>	50% to 75%
<b>Total Private Real Estate</b>	<b>6.5</b>	4.5% to 10%
<b>Total Infrastructure</b>	<b>2.0</b>	+/- 2.0%
<b>Total Hedge Funds</b>	<b>2.0</b>	+/- 2.0%
Fixed Income	<b>19.5</b>	14.5% to 35%
-Index	11.0	
-Core Investment Grade	4.25	
-Opportunistic	4.25	
Cash Equivalents	<b>2.0</b>	+/- 2.0%
<b>Total Fixed Income</b>	<b>21.5</b>	20% to 35%
<b>Total</b>	<b>100.0</b>	

## **Comments on Asset Allocation Policy**

- In order to allow the Fund an opportunity to maximize its funded status over time and, thus, increase long-run benefit security, a meaningful commitment (target of 62.5%) is made to the public equity sector.
- In order to increase diversification benefits while maintaining a core position in equities, approximately 40% of the domestic equity commitment is allocated to equity index funds, while the remaining commitment is allocated to active equity managers chosen as complements to the structure.
- To further improve diversification benefits, a target commitment of 9% of total Fund assets are made to small capitalization equity and 22% to international equity.
- To fully capture diversification benefits along the capitalization spectrum, a target commitment of 3.5% is made to mid capitalization equity.
- In order to diversify the international equity commitment, up to 30% is invested in the emerging markets or lesser developed countries.
- A commitment of 3% of the Total Fund is allocated to the private equity sector, 2% of the Total Fund is allocated to Infrastructure and 2% of the Total Fund is allocated to Hedge Funds to improve the risk posture of the overall fund.
- A commitment of 2.5% of the Total Fund is allocated to the public REIT sector to improve the risk posture of the overall Fund and provide access to this developing market.
- A commitment of 6.5% of Total Fund assets is allocated to the private real estate sector to improve the risk posture of the overall Fund and provide a further inflation buffer.
- A target of 19.5% of Total Fund assets is allocated to fixed income securities in order to optimize the overall structure of the Fund and provide a more consistent income stream. These assets will have a market-oriented (i.e., Barclays Aggregate Bond Index) benchmark structure.
- In order to increase diversification benefits while maintaining a core position in fixed income securities, 55% - 60% of the domestic fixed income commitment is allocated to bond index funds, while the remaining portion is allocated to core investment grade and opportunistic managers chosen as complements to the structure.
- A commitment of 2% of Total Fund assets is allocated to cash equivalents, or short-term fixed income type securities in order to meet the benefits and expense demands of the Fund.

## INVESTMENT MANAGEMENT STRUCTURE

In selecting investment managers to implement the Fund's asset allocation policy, a specific process of selection and evaluation of candidate firms is followed. Candidate organizations are identified according to criteria established by the role defined in the Statement of Investment Policy. Evaluation of organizations includes an analysis of organizational structure, professional personnel, investment philosophy and process and portfolio characteristics as well as the ability to adequately serve the specific needs of the Fund. Evaluation of the performance histories of organizations are based upon the performance standards established for the given role by this Statement of Investment Policy. Presentations to the Board of Trustees are required.

The selection of an investment manager also considers the correlation with other existing investment managers in the same sub asset allocation, and with the corresponding market index. Consideration is given to the benefits of diversification within a sub asset allocations by investment style or focus.

### **Comments on Investment Management Structure**

- In order to allow the Fund to diversify effectively by asset class and organization, a multiple manager structure is utilized. This structure will also serve to limit the impact of any single manager on the Total Fund.
- An index fund manager(s) is utilized to maintain a core position in equities (as measured by the Standard & Poor's 500 Stock Index, Russell 1000 Core and Russell 1000 Growth). An index fund manager(s) is also utilized for a portion of the small capitalization, mid capitalization and international equity commitments. To complement this core position, active large capitalization equity managers are retained.
- Active managers are also retained for the small capitalization domestic, mid capitalization domestic and international equity allocations in order to add value in these less efficient sectors of the market.
- An index fund manager(s) is utilized to maintain a core position in fixed income. Active fixed income managers are retained to complement this core position.
- **A minimum of 25% of actively managed assets shall be invested with minority and/or female organizations that meet the definition of emerging manager under the Illinois statute. Within actively managed assets, a minimum of 15% of Private Equity and 15% of Real Estate assets will be invested with minority and/or female organizations.**
- The precise dollar allocation among managers in a particular category is determined by the Board with assistance from the Investment Consultant or Real Estate Investment Consultant and may be modified at their discretion.

## **Responsibilities of the Investment Managers**

Each investment manager has the following responsibilities, including those specified in the Investment Advisory Agreement.

- Managing the portion of the Fund assets under its control in accordance with the policy objectives and guidelines included herein (including any Board resolutions included in the Appendix) and in accordance with generally accepted prudence standards.
- Complying with any applicable legislative or regulatory stipulations, including Illinois law.
- Exercising full investment discretion within the policies and standards included herein as to buy, hold and sell decisions for all assets under management.
- Promptly informing the Board and/or their designated agents (the Executive Director and the Investment Consultant or Real Estate Investment Consultant) regarding significant matters pertaining to the investment of Fund assets. This includes, at a minimum, the following:
  - Quarterly portfolio asset and transactions statements.
  - Substantive changes in investment strategy and portfolio structure.
  - Changes in ownership, organizational structure, financial condition or professional staffing.
  - Quarterly reports detailing all trading activity and specific broker utilization.
  - Annual reports detailing all proxy voting activity.
- Providing input as appropriate regarding progress toward the specific objectives developed herein, as well as suggestions as to possible modifications to the investment policies.

## **Manager Probation and Termination Guidelines**

### ***Criteria for the Review and Termination of Investment Managers***

The Investment Committee will recommend placing an investment manager on “watch” status when confidence is lost in the management of a strategy; when the characteristics of the portfolio no longer satisfy the desired or expected elements of the mandate, or the current style is no longer deemed appropriate. The following are a list of scenarios that would lead to a loss of confidence in a manager:

- **Performance:** Continued performance shortfalls versus a peer group of managers with a similar style and market index. A manager that does not remain in the upper half of the universe and lags the market index over a rolling three years for three consecutive quarters will be considered for placement on watch status.



- **Changes in strategy:** If the manager departs from the strategy and/or style it was originally hired to implement, such as a switch from a quantitative process to a fundamental one and or the strategy deviates from the universe and benchmark dramatically and in a manner that would not have been expected given the tracking error expectations of the particular strategy.
- **Change in organizational structure or personnel:** A significant change in culture through a merger or acquisition that is likely to distort incentives and promote turnover, or if significant members of the investment team leaves the firm.
- **Compliance:** Any gross negligence, willful misconduct, investment policy violation or breach of federal and state securities laws.
- **Changes in Asset Allocation:** The manager or strategy may no longer fit the desired portfolio structure. This may reflect a revision of the desired portfolio structure due to factors such as asset allocation and/or risk profile changes.
- **Brokerage Guidelines:** Investment managers that do not follow CPT's brokerage policy will be considered for placement on watch status.
- **Other:** Any other reason the Investment Committee may deem necessary for a heightened review of the manager is warranted.

The Investment Committee and Mercer IC's investment manager recommendations may fall into one of the following three categories:

- **Retain:** We have confidence in the investment manager's ability to add future value. The manager's investment performance is satisfactory, and has no significant organizational or strategic issues.
- **Place on Watch:** The manager's investment performance is unsatisfactory and/or issues relating to the organization or strategy are of concern.
- **Terminate:** We do not have confidence in the manager's ability to add future value over a benchmark. We may recommend terminating a manager if significant concerns exist as to the organization or strategy.

The Investment Committee and with assistance from the investment consultant will review managers during performance review meetings and when necessary provide recommendations to either place managers on watch or terminate relationships. These recommendations will be brought to the entire Board of Trustees for a final decision to be approved. Managers can be placed on watch status for a period of four quarters prior to a recommendation for termination. There may be, however, circumstances under which the Investment Committee may elect to terminate a manager without first placing them on watch with Board of Trustee approval.

### ***Procedures Following the Initiation of Watch Status***

- The watch period will be established for the next three quarters, for a one-year total watch duration.
- Within one quarter from the time a manager is placed on watch, the Committee will interview the manager to determine if performance is explainable, and will continue to watch performance over the remainder of the three-quarter watch period.
- If at the end of the watch period, performance has improved to above-benchmark and or above the manager median over a market cycle, we will remove the manager from the watch list.
- If, at the end of the watch period, the manager is underperforming either or one of the objectives, (in effect, four consecutive rolling time periods of non-compliance) there will be four options for the Committee:
  - 1 Immediately terminate the manager;
  - 2 Commence a search for a replacement manager;
  - 3 Reduction of allocation to the manager with the amount determined by the Board or
  - 4 Interview the investment manager again to determine whether performance is suitably explainable or if an upward trend in relative performance has developed, and continue the “watch” period for an additional number of quarters.

## **INVESTMENT OBJECTIVES AND GUIDELINES**

The Board expects to receive results from the investment managers that are consistent with the policies included herein. The following sections outline the specific objectives and guidelines established for each asset management category. These objectives and guidelines provide a basis for evaluating the effectiveness of each investment manager and the overall investment program over time.

The objectives and guidelines established for each investment manager take into account the primary market in which the investment manager is expected to invest. Investment results are also to be compared to like groups of investment managers to provide a competitive analysis. Varying time periods, especially longer time periods, are employed to judge the success of the investment manager during different market conditions, and to evaluate any emerging trends in investment results. Investment results are evaluated both before and after the effect of management fees.

This section contains the objectives and guidelines for the following asset categories, capitalization and style subcategories (The Infrastructure and Hedge Fund asset classes, considered “Alternative Investments”, are not included, but are addressed in a separate category from Equity, Real Estate and Fixed Income):

Total Fund	Equity	Large Cap	Passive	Index
			Active	Core
				Value
		Growth		
		Small Cap	Passive	Index
			Active	Core
				Value
		Growth		
		Mid Cap	Passive	Index
			Active	Core
				Value
		Growth		
		All Cap	Passive	Index
				Core
				Value
		Growth		
		International	Active	ACWI ex US
		International All Cap	Active	MSCI EAFE ex US
		International Small Cap	Active	MSCI ex-US Small Cap
	Private Equity	Active	Venture Analytics	
	Public REIT	Active	NAREIT	
	Real Estate		Active	NCREIF
	Fixed Income		Passive	Index
Active			Core	
			Opportunistic	
			Cash Equivalents	

## TOTAL FUND

### **Investment Objective**

The overall financial objective of the Fund is to provide an investment return ahead of the actuarial rate of return on a net of fee basis per year over longer time periods.

### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the benchmark. <sup>2</sup>	Rank in the upper half of a universe. <sup>3</sup>
One market cycle. (Rolling 5-year periods)	Exceed the benchmark <sup>2</sup> by 20 basis points.	Rank in the upper 40% of a universe. <sup>3</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> Benchmark defined as 28.0% S&P 500 / 3.5% S&P MidCap / 9% Russell 2000 / 4.0% Russell 3000 Index / 22.0% ACWI ex-US / 2.5% NAREIT / 6.5% NCREIF / 20.5% LB Aggregate / 2.0% SSB 91-Day Treasury Bills / 2.0% "8% annual return".

<sup>3</sup> As measured by a public fund universe

## TOTAL FUND

### **Investment Guidelines**

- The investment guidelines governing each asset class/manager together constitute the Total Fund guidelines.
- The Fund will conform to the statutory requirements outlined in Illinois law.
- The Board is responsible for the overall asset allocation of the Fund. Each manager is responsible for adhering to the statutory guidelines for its portion of Fund assets only.

### **Liquidity Requirements and Cash Flows**

- Income and capital appreciation from each manager's portfolio generally is expected to be reinvested by that manager unless otherwise notified by the Board or their agents (i.e., the Executive Director or the Investment Consultant).
- Liquidity requirements (i.e., for covering Fund expenses and benefits payments) are taken from the cash account at the custodian bank. The Executive Director and Investment Consultant will determine expected liquidity requirements on a periodic basis and notify each manager of the portion, if any, of this requirement that will be taken from its portfolio.

### **Brokerage**

- Each manager will be given the discretion to utilize brokerage firms which it believes offer the best execution for a given trade. However, each manager should adhere to the guidelines for brokerage as stated in the Investment Advisory Agreement and the Board resolution regarding brokerage included as an Appendix to this Statement.

### **Proxy Voting**

- Each domestic equity manager is given the authority and mandate to vote all proxies for shares held on behalf of the Fund. Each manager is also required to provide a complete record of all proxy voting activity, including the specific actions taken, on an annual basis.

## EQUITY

### **Investment Objective**

The overall financial objective of the equity portfolio of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the benchmark. <sup>2</sup>	Rank in the upper half of a universe. <sup>3</sup>
One market cycle. (Rolling 5-year periods)	Exceed the benchmark by 50 basis points.	Rank in the upper 40% of a universe. <sup>3</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> Benchmark defined as 56% S&P 500 / 6% S&P MidCap / 15% Russell 2000 / 20% ACWI ex-US-/ 3% NAREIT

<sup>3</sup> As measured by a broad equity universe.

## EQUITY

### LARGE CAPITALIZATION

#### Investment Objective

The overall financial objective of the large capitalization equity portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

INDEX —

S&P 500, Russell 1000, and Russell 1000 Growth Portfolios

- Performance should not fall below the relevant Index by more than 10 basis points over any one-year period.

CORE —

#### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 1000	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 1000 plus 50 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a large capitalization equity Universe.



## EQUITY

### LARGE CAPITALIZATION

VALUE —

#### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 1000 Value Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 1000 Value Index by 50 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a large capitalization value equity manager universe.

GROWTH —

#### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 1000 Growth Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 1000 Growth Index by 50 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a large capitalization growth equity manager universe.

## EQUITY

### LARGE CAPITALIZATION

**Investment Guidelines** – Apply to each manager except as otherwise noted.

- Return regression analysis and portfolio characteristics will be evaluated to determine the orientation of the investment strategy of the individual investment manager and to determine style specific objectives. Once determined, shifts in style will not be acceptable. Style will be evaluated on an ongoing basis, but not less frequently than once every two years.
- Appropriate investments consist primarily of common stocks and/or convertible securities, however cash equivalents may be used at the manager's discretion.
- Holdings in any one company should not exceed 7.5% of the total portfolio, measured at market value.
- Holdings in one industrial sector should not exceed the greater of 35% of the total portfolio or 1.5 times the sector's weight within the benchmark, measured at market value.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting, and reporting requirements.
- ADR's are allowed up to 10%
- Prohibited securities include:
  - private placements
  - foreign securities listed on foreign exchanges
  - options and futures
- Should the circumstance arise in which a domestic company, currently held in an investment manager's portfolio, be purchased by a foreign entity and registered as an ADR, the investment manager will be allowed to hold the security at their discretion.

Note: The index manager will be responsible for holding a portfolio designed to replicate the returns of the relevant benchmark. As such, the above guidelines do not specifically apply.

## EQUITY

### **ALL CAPITALIZATION (including DOMESTIC EQUITY MWBE MANAGER OF MANAGERS)**

#### **Investment Objective**

The overall financial objective of the all capitalization equity portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

INDEX —

Russell 3000

CORE —

#### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 3000	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 3000 plus 60 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by an all capitalization equity Universe.

## EQUITY

### ALL CAPITALIZATION

VALUE —

#### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 3000 Value Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 3000 Value Index by 60 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by an all capitalization value equity manager universe.

GROWTH —

#### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 3000 Growth Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 3000 Growth Index by 60 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by an all capitalization growth equity manager universe.

## EQUITY

### ALL CAPITALIZATION

**Investment Guidelines** – Apply to each manager except as otherwise noted.

- Return regression analysis and portfolio characteristics will be evaluated to determine the orientation of the investment strategy of the individual investment manager and to determine style specific objectives. Once determined, shifts in style will not be acceptable. Style will be evaluated on an ongoing basis, but not less frequently than once every two years.
- Appropriate investments consist primarily of common stocks and/or convertible securities, however cash equivalents may be used at the manager's discretion.
- Holdings in any one company should not exceed 7.5% of the total portfolio, measured at market value.
- Holdings in one industrial sector should not exceed the greater of 35% of the total portfolio or 1.5 times the sector's weight within the benchmark, measured at market value.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting, and reporting requirements.
- ADR's are allowed up to 10%
- Prohibited securities include:
  - private placements
  - foreign securities listed on foreign exchanges
  - options and futures
- Should the circumstance arise in which a domestic company, currently held in an investment manager's portfolio, be purchased by a foreign entity and registered as an ADR, the investment manager will be allowed to hold the security at their discretion.

## EQUITY

### **AII CAPITALIZATION**

#### ***DOMESTIC EQUITY MWBE MANAGER OF MANAGERS***

- The manager of managers is responsible for hiring and terminating the underlying minority- and women-owned investment managers within their program at their discretion. Individual investment manager allocations and individual styles used are also at the discretion of the manager of managers. The manager of managers is responsible for conducting due diligence of each underlying investment manager and evaluating the continued appropriateness of each of these firms.
- The manager of managers is responsible for determining the investment guidelines of the underlying investment managers, and is expected to maintain appropriate style, capitalization, sector, and stock-specific diversification in the overall portfolio under its control.
- The overall portfolio is expected to have portfolio characteristics similar to the Russell 3000 Index, the overall benchmark for the program.
- Non domestic equity investment manager strategies are prohibited.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting, and reporting requirements.
- Cash equivalents will be invested in the Custodian's STIF account.
- Underlying investment managers may only invest in domestic equity and cash equivalents.
- Neither the manager of managers nor the underlying investment managers may leverage the portfolio.

## EQUITY

### MID CAPITALIZATION

#### Investment Objective

The overall financial objective of the mid capitalization portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

INDEX —

S&P MidCap Portfolio

- Performance should not fall below the S&P MidCap Index by more than 20 basis points over any one-year period.

CORE —

#### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the S&P MidCap Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the S&P MidCap Index by 50 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a mid capitalization core equity manager universe.

VALUE —

#### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the S&P MidCap Value Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the S&P MidCap Value Index by 50 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a mid capitalization value equity manager universe.

## EQUITY

GROWTH —

### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the S&P MidCap Growth Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the S&P MidCap Growth Index by 50 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a mid capitalization growth equity manager universe.



## EQUITY

### MID CAPITALIZATION

**Investment Guidelines** – Apply to each manager except as otherwise noted.

- Return regression analysis and portfolio characteristics will be evaluated to determine the orientation of the investment strategy of the individual investment manager and to determine style specific objectives. Once determined, shifts in style will not be acceptable. Style will be evaluated on an ongoing basis, but not less frequently than once every two years.
- Appropriate investments consist primarily of common stocks and/or convertible securities, however cash equivalents may be used at the manager's discretion.
- Holdings in any one company should not exceed 5% of the total portfolio, measured at market value.
- Holdings in one industrial sector should not exceed the greater of 35% of the total portfolio or 1.5 times the sector's weight within the benchmark, measured at market value.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting, and reporting requirements.
- ADR's are allowed up to 10%
- Prohibited securities include:
  - private placements
  - foreign securities listed on foreign exchanges
  - options and futures
- Should the circumstance arise in which a domestic company, currently held in an investment manager's portfolio, be purchased by a foreign entity and registered as an ADR, the investment manager will be allowed to hold the security at their discretion.

Note: The index manager will be responsible for holding a portfolio designed to replicate the returns of the S&P MidCap Index. As such, the above guidelines do not specifically apply.

## EQUITY

### SMALL CAPITALIZATION

#### Investment Objective

The overall financial objective of the small capitalization equity portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

INDEX —

Russell 2000 Portfolio

- Performance should not fall below the Russell 2000 Index by more than 30 basis points annualized over any three-year period.

## EQUITY

### **SMALL CAPITALIZATION**

CORE —

#### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 2000.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 2000 by 100 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a small capitalization equity manager universe.

VALUE —

#### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 2000 Value.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 2000 Value by 100 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a small capitalization value equity manager universe.

GROWTH —

#### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Russell 2000 Growth.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Russell 2000 Growth by 100 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a small capitalization growth equity manager universe.

## EQUITY

### SMALL CAPITALIZATION

**Investment Guidelines** – Apply to each manager except as otherwise noted.

- Return regression analysis and portfolio characteristics will be evaluated to determine the orientation of the investment strategy of the individual investment manager and to determine style specific objectives. Once determined, shifts in style will not be acceptable. Style will be evaluated on an ongoing basis, but not less frequently than once every two years.
- Appropriate investments consist primarily of common stocks however cash equivalents may be used at the manager's discretion.
- Holdings in any one company should not exceed 5% of the total portfolio, measured at market value.
- The average (median) market capitalization of the portfolio should not exceed three times the median market capitalization of a comparable Index.
- Each manager will conform to all applicable statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting, and reporting requirements.
- ADR's are allowed up to 10%
- Prohibited investments include:
  - Private placements
  - Foreign securities listed on foreign exchanges
  - Options and futures
- Should the circumstance arise in which a domestic company, currently held in an investment manager's portfolio, be purchased by a foreign entity and registered as an ADR, the investment manager will be allowed to hold the security at their discretion.

Note: The index manager will hold units in its small capitalization equity pooled fund. As such, the above guidelines do not apply. The Trustees and Investment Consultant have reviewed and accepted the guidelines governing the pooled fund(s).

## EQUITY

### INTERNATIONAL

#### Investment Objective

The overall financial objective of the international equity portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

INDEX —

MSCI EAFE Growth Index

- Performance should not fall below the MSCI EAFE Growth Index by more than 20 basis points over any one-year period.

ACTIVE —

Index – ACWI ex US—Apply to each manager unless otherwise noted in the contract

#### Performance Standard\*

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the MSCI ACWI ex-US Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the MSCI ACWI ex-US Index by 75 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a broad international equity manager universe.

\* All performance is measured upon conversion to U.S. dollars.

## EQUITY

### INTERNATIONAL

**Investment Guidelines** – Apply to each manager unless otherwise noted.

- Appropriate investments consist primarily of common stocks, however cash equivalent and/or fixed income securities may be used at the manager's discretion.
- Equity holdings in any one company should not exceed 7.5% of the total portfolio, measured at market value.
- Equity holdings in one industrial sector should not exceed greater of 35% of the total portfolio or 1.5 times the sector's weight within the benchmark, measured at market value.
- Cash equivalents held in the portfolio may be in dollar denominated or non-dollar denominated investments.
- Each manager may utilize forward contracts at its discretion to hedge currency exposure.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting and reporting requirements.

The manager may invest in emerging markets up to 30% of the market value of the portfolio.

## EQUITY

### INTERNATIONAL ALL CAPITALIZATION

#### Investment Objective

The overall financial objective of the international equity portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

ACWI ex US –Apply to each manager unless otherwise noted in the contract

#### Performance Standard\*

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the MSCI ACWI ex-US Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the MSCI ACWI ex-US Index by 75 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a broad international equity manager universe.

\* All performance is measured upon conversion to U.S. dollars.

## EQUITY

### INTERNATIONAL ALL CAPITALIZATION

**Investment Guidelines** – Apply to each manager unless otherwise noted.

- Appropriate investments consist primarily of common stocks; however cash equivalent and/or fixed income securities may be used at the manager's discretion.
- Equity holdings in any one company should not exceed 7.5% of the total portfolio, measured at market value.
- Equity holdings in one industrial sector should not exceed greater of 35% of the total portfolio or 1.5 times the sector's weight within the benchmark, - measured at market value.
- Cash equivalents held in the portfolio may be in dollar denominated or non-dollar denominated investments.
- Each manager may utilize forward contracts at its discretion to hedge currency exposure.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting and reporting requirements.

The manager may invest in emerging markets up to 30% of the market value of the portfolio.



## EQUITY

### INTERNATIONAL SMALL CAPITALIZATION

#### Investment Objective

The overall financial objective of the international equity portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

MSWSC – Apply to each manager unless otherwise noted in the contract

#### Performance Standard\*

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the MSCI ex-US Small Cap Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the MSCI ex-US Small Cap Index by 100 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a broad international equity manager universe.

\* All performance is measured upon conversion to U.S. dollars.

## EQUITY

### INTERNATIONAL SMALL CAPITALIZATION

**Investment Guidelines** – Apply to each manager unless otherwise noted.

- Appropriate investments consist primarily of common stocks; however cash equivalents and/or fixed income securities may be used at the manager's discretion.
- Equity holdings in any one company should not exceed 7.5% of the total portfolio, measured at market value.
- Equity holdings in one industrial sector should not exceed 35% of the total portfolio or 1.5 times the sector's weight within the benchmark, measured at market value.
- The average (median) market capitalization of the portfolio should not exceed three times the median market capitalization of a comparable Index.
- Cash equivalents held in the portfolio may be in dollar denominated or non-dollar denominated investments.
- Each manager may utilize forward contracts at its discretion to hedge currency exposure.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, proxy voting, and reporting requirements.
- The manager may invest in emerging markets up to 30% of the market value of the portfolio.

## EQUITY

### PRIVATE EQUITY

**Investment Guidelines** – Apply to each manager unless otherwise noted.

All private equity investments are currently within a fund of fund or direct fund arrangement and adhere to the partnership agreement.

The overall financial objective of the private equity portfolios of the Fund is to meet the performance standard on a net of fee basis over the life of the investment.

BENCHMARK —

Venture Analytics

**Performance Standard:**

Horizon	Index	Universe
One market cycle. (Rolling 12-15 years)	16% annualized rate of Return <sup>1</sup>	Rank in the 2nd quartile or better of Venture Analytics for appropriate vintage year <sup>2</sup>

<sup>1</sup> All performance comparisons will be made after the conversion back into U.S. dollars.

<sup>2</sup> As measured by a broad private equity manager universe.

**Investment Guidelines:**

- Private equity investments should be made primarily through closed-end private equity funds.
- Adequate diversification by private equity subclass (venture capital, buyout, mezzanine, distressed debt, special situation, and non-U.S.) should be maintained.
- New investments in private equity funds should not exceed 5% of the normal policy allocation to private equity.
- Managers will execute for the Fund any and all documents pertaining to private equity limited partnership investments, including, but not limited to, private equity limited partnership agreements; private equity limited partnership subscriptions agreements and amendments to said agreements.

## FIXED INCOME

### **Investment Objective**

The overall financial objective of the fixed income portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

INDEX —

Barclays Capital Government/Credit Index Portfolio

- Performance should not fall below the Barclays Capital Government/Credit Bond Index by more than 25 basis points over any one-year period.

CORE —

### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Barclays Aggregate Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Barclays Aggregate Index by 35 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a broad fixed income manager universe.

## FIXED INCOME

### Investment Guidelines

- Appropriate investments consist of marketable debt securities and cash equivalents.
- Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BAA (Standard & Poor's) and the average quality of the portfolio must be AA or better. Unrated U.S. Treasury and Government agency securities are permissible and will be treated as AAA rated for purposes of weighting.
- Individual security holdings (excluding cash equivalents and U.S Treasury and Government agency issues) should not exceed 6% of the total portfolio, measured at market value.
- Each manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, (if any) voting and reporting requirements.
- The maximum amount of the portfolio that can be invested in the securities of a single issuer does not apply to issues guaranteed by the FDIC under the Temporary Liquidity Guarantee Program.
- Prohibited investments include:
  - Private placements (144A securities are acceptable)
  - Foreign securities (Yankees are acceptable)

## OPPORTUNISTIC FIXED INCOME

### Investment Objective

The overall financial objective of the opportunistic fixed income portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

OPPORTUNISTIC —

### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed the Barclays Aggregate Index.	Rank in the upper half of a universe. <sup>2</sup>
One market cycle. (Rolling 5-years periods)	Exceed the Barclays Aggregate by 70 basis points.	Rank in the upper 40% of a universe. <sup>2</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> As measured by a broad fixed income manager universe.

## OPPORTUNISTIC FIXED INCOME

### Investment Guidelines

Appropriate investments consist of any of the following fixed income securities and their futures or options derivatives, individually or in commingled vehicles, subject to credit, diversification and marketability guidelines below, may be held outright and under resale agreement:

- A. Cash Equivalent Securities include but are not limited to interest bearing or discount instruments such as money market funds; U.S. Treasury Bills; corporate-issued commercial paper; bank-issued Certificates of Deposits; bankers' acceptances; and repurchase agreements fully collateralized by U.S. Treasury or Agency securities.
- B. U.S. Treasury Notes, Bonds, TIPS, and STRIPs
- C. Government Agencies & Instruments (Discount Notes, Debentures, Mortgage-Backed Securities)
- D. Corporate Bonds, Notes, Debentures, Asset-Backed Securities—such as mortgage bonds, convertible and non-convertible notes and debentures, preferred stocks, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations;
- E. Yankee and Eurodollar Bonds, Notes
- F. Non-Agency Mortgage-Backed Securities
- G. Sovereign or Supra-national Bonds
- H. Obligations, including the securities of emerging market issuers, denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies), as well as foreign currency exchange-related securities, warrants, and forward contracts.
- I. Swaps, forwards, options on swaps, options on forwards.
- J. Securities defined under Rule 144(A) and Commercial Paper defined under Section 4(2) of the Securities Act of 1933.

*All of the above can be either fixed, variable, or floating rate.*

## OPPORTUNISTIC FIXED INCOME

### **Prohibited Investments**

Securities specifically prohibited from purchase include, but are not limited to:

- A. Short sales of any type.
- B. CMO residuals and support tranches.
- C. Stripped mortgage-related securities (Interest Only Strips – “IOs”, Principal Only Strips – “POs”) both generic and prepayment protected.
- D. Leveraged Floaters and Inverse Floaters, including Money Market obligations.
- E. Tiered-Index Bonds, Range Notes and all other forms of structured notes whose return characteristics are tied to changes in prepayments on mortgages or changes in a specified interest rate index or market rate.
- F. Natural resource real properties such as oil, gas or timber.
- G. Partnerships or limited partnerships.
- H. Precious metals.
- I. All other forms of derivatives not specifically defined as permissible.

### **Other Investment Guidelines**

- A. Concentration per fixed income issuer cannot exceed 6% of the portfolio market value at the time of purchase, with the exception of investments in commingled vehicles, cash, cash-equivalent, U.S. Treasury or Agency securities. Furthermore, managers may not hold more than 5% of the outstanding shares of any single issuer with the exception of U.S. Treasuries or Agencies.
- B. “144A” debt and Section 4(2) Commercial Paper are limited to a maximum of 20% of the fixed income portfolio market value.
- C. A minimum of 80% of all fixed income securities (including 144A’s) must be rated investment grade at the time of purchase by a majority of the Nationally Recognized Statistical Rating Organizations (“NRSROs”) assigning a rating to that issue, or in the case of a single rating, that rating must be investment grade. If there are two ratings, both must be investment grade. Should less than 80% of the portfolio be rated investment grade subsequent to purchase. The manager will immediately contact the Board regarding its recommendation for bringing the portfolio into compliance



- D. Up to 20% of all fixed income securities may be invested in non-Dollar denominated securities; up to 10% of the portfolio may be invested in unhedged non-dollar denominated securities;
- E. Up to 10% of the portfolio may be invested in emerging markets debt (dollar and non-dollar denominated), although under no circumstances may the combined assets held in high yield and emerging markets debt exceed 20% of the portfolio.
- F. Rated cash and cash-equivalent securities must be rated in the highest short-term rating category by a majority of the NRSROs assigning a rating to that issue, such as "A1" by Standard & Poors or "P1" by Moody's. In the case of two ratings, the lowest rating applies and must be in the highest short-term category. In the case of only a single rating, that rating must be in the highest short-term rating category.
- G. The weighted average duration of the fixed income portfolio is expected to remain within a range of 80% to 120% of the representative benchmark.
- H. Permissible CMOs will be limited to no greater than 25% of the market value of the fixed income portfolio.
- I. In addition to the above rating guidelines, all bank-issued securities must carry a minimum rating of "B/C" or better by Thomson BankWatch rating service.
- J. Securities owned by the Plan but held in custody by another party may not be lent unless previously approved.
- K. The manager will conform to all applicable Statutory limitations, Board resolutions, guidelines relating to brokerage, (if any) voting and reporting requirements.
- L. The maximum amount of the portfolio that can be invested in the securities of a single issuer does not apply to issues guaranteed by the FDIC under the Temporary Liquidity Guarantee Program.

## OPPORTUNISTIC FIXED INCOME

### Derivatives Policy

Investment managers may use derivatives traded on a recognized derivatives exchange for hedging and efficient portfolio management purposes subject to compliance with the following specific guidelines at all times:

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

#### *a) Futures*

- The portfolio shall never be leveraged.
- The effective economic exposure to any asset class after allowing for the impact of short futures positions shall never be negative.

#### *b) Options*

- Call options may be purchased only so long as there is sufficient cash available to meet the exercise price or as part of a call spread.
- Put options may be purchased only to the extent that the corresponding physical asset is held in the portfolio or as part of a put spread.
- Call options may be written only if they are covered by holdings of the corresponding physical asset or as part of a call spread. Writing of uncovered call options is prohibited.
- Put options may be written only if there is sufficient cash available to pay to meet the exercise of the option or as part of a put spread.
- Options positions will be limited to those which, in a reasonable range of market scenarios, will not change the portfolio's average weighted duration by more than +20%.

#### *c) Reporting*

- All derivative positions and transactions shall be separately and explicitly identified in the Investment manager's reporting. Each time the Investment Manager undertakes a derivative transaction they shall highlight this in the first written report afterwards and explain the rationale for the transaction.

Over-the-counter derivatives not traded on a recognized exchange can only be used with specific prior written consent.

## REAL ESTATE

### PUBLIC REIT

#### Investment Objective

The overall financial objective of the Public REIT portfolios of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

#### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Meet the Custom REIT Index. <sup>2</sup>	Rank in the upper half of a universe. <sup>3</sup>
One market cycle. (Rolling 5-year periods)	Exceed the Custom REIT Index. <sup>2</sup>	Rank in the upper 45% of a universe. <sup>3</sup>

<sup>1</sup> All index comparisons are net of fees.

<sup>2</sup> The Custom REIT index is calculated as a weighted average of the FTSE EPRA/NAREIT Global Real Estate Index and the FTSE NAREIT US Real Estate Index where the weights are determined by the Plan's exposure to US Only and Global mandates as of the end of each quarter.

<sup>3</sup> As measured by the Townsend REIT Manager Universe.

#### Investment Guidelines – Apply to each manager unless otherwise noted.

- The portfolio should maintain adequate diversification across individual holdings and property sectors. Any one issue should be limited to no more than 10% of the portfolio based upon market value at time of purchase.
- The securities in the portfolios should have a real estate-related activity, with at least 50% of income coming from real estate properties. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.
- For managers with a US only mandate, the primary focus will be on listed companies that invest in U.S. real estate, although there may be some incidental exposure to foreign properties. No more than five percent of the portfolio may be exposed to non-U.S. properties.
- For managers with a global mandate, the primary focus will be on listed companies that invest primarily in real estate, regardless of country of domicile.
- The maximum exposure to REITs domiciled outside of the U.S for tax purposes is limited to 40% of the total value of the public real estate portfolio.
- In general, the managers will abide by a fully invested mandate. Cash positions are limited to 0-5% of the portfolio. Abnormally high cash positions will be tolerated temporarily when due to a strategic decision by the manager.

## REAL ESTATE

### PRIVATE REAL ESTATE

#### Investment Objective

The overall financial objective of the private real estate portfolios of the Fund is to meet the performance standard on a net of fee basis over the life of the investment.

BENCHMARK —

National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index

#### Performance Standard:

Horizon	Index	Universe
Rolling 5-Year period <sup>1</sup>	NCREIT Property Index	N/A

<sup>1</sup> All performance comparisons will be made after the conversion back into U.S. dollars.

#### Investment Guidelines:

- Private real estate investments should be made primarily through closed-end private equity funds.
- Adequate diversification by private equity subclass (core, non-core/enhanced return, non-core/high return) should be maintained.
- The Plan will maintain minimum allocation of 40% to core real estate investments, primarily through investment in Open End Diversified Core commingled fund vehicles
- The Plan will also maintain a maximum allocation of 60% to all non-core private real estate investments, primarily through limited partnership interests in closed-end funds.
- Managers will execute for the Fund any and all documents pertaining to private real estate limited partnership investments, including, but not limited to, private real estate limited partnership agreements; private real estate limited partnership subscriptions agreements and amendments to said agreements.

## CASH

### **Investment Objective**

The overall financial objective of the cash portfolio of the Fund is to meet the performance standard on a net of fee basis per year over longer time periods.

### **Performance Standard**

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Exceed Salomon Brothers 3 month Treasury Bills by 30 basis points.	Exceed the Donoghue Money Market Index.
One market cycle. (Rolling 5-year periods).	Exceed Salomon Brothers 3 month Treasury Bills by 70 basis points.	Exceed the Donoghue Money Market Index by 30 basis points.

<sup>1</sup> All index comparisons are net of fees.

### **Investment Guidelines**

- Eligible investments shall be limited to units of the Collective Short-term Investment Fund, the Collective Short-term Extendible Portfolio, and the Collective Short to Intermediate Bond Fund, each of which is a collective trust fund maintained by The Northern Trust Company, the Fund's Custodian. The investment guidelines governing these funds have been reviewed and accepted by the Trustees and Investment Consultant.

## ALTERNATIVE INVESTMENTS

### INFRASTRUCTURE

#### Investment Objective

All Infrastructure investments are currently within a fund of fund structure and adhere to the partnership agreement.

The overall financial objective of the Infrastructure portfolios of the Fund is to meet the performance standard on a net of fee basis over the longer time periods.

#### Performance Standard

Horizon	Index	Universe
One market cycle. (Rolling 5-7 years)	8% annualized rate of Return <sup>1</sup>	N/A

<sup>1</sup> All index comparisons are net of fees.

**Investment Guidelines** – Apply to each manager unless otherwise noted.

- The portfolio should maintain adequate diversification across Investments.
- Each manager invests in both US and non-US assets, with at least 50% of their investments in US Infrastructure products.

## ALTERNATIVE INVESTMENTS

### HEDGE FUNDS (FUND OF HEDGE FUNDS)

#### Investment Objective

All Hedge Fund investments are currently within a fund of fund structure and adhere to the partnership agreement.

#### Performance Standard

Horizon	Index <sup>1</sup>	Universe
Less than one market cycle. (Rolling 3-year periods)	Meet the US 3 Month T-Bill + 3% - 6% Index.	N/A
One market cycle. (Rolling 5-year periods)	Exceed the US 3 month T-Bill + 3% - 6% Index.	N/A

<sup>1</sup> All index comparisons are net of fees.

**Investment Guidelines** – Apply to each manager unless otherwise noted.

- The portfolio should maintain adequate diversification by both fund type and provider.

## EVALUATION AND REVIEW

The Board of Trustees, with the assistance of their Investment Consultant and Real Estate Investment Consultant, will review the performance of the investment managers and their adherence to the restrictions and policies applicable to the assets under management on a quarterly basis to determine whether the managers have performed in accordance with their stated investment approaches. In addition, the managers will be evaluated to determine their progress toward achieving the investment objectives specified herein. Failure by a manager to achieve its policy objectives will be cause for the Board to reexamine that manager's continuing appropriateness in the investment program.

At least every 18 months each manager will be expected to meet with the Board. More frequent meetings with the Investment Consultant, Real Estate Investment Consultant and the Executive Director may be required. In addition, each manager will be required to submit quarterly reports which include:

- A review of investment performance and portfolio structure.
- A synopsis of key investment decisions, their underlying rationale and expected future implications.
- An organizational update.
- A response to any questions posed or issues raised by the Board or the Investment Consultant prior to the meeting.
- A review of the portfolio holdings and all transactions.
- A report on commissions and proxy voting.
- A Statement that they have complied with the Investment guidelines including all aspects of Illinois Law.

The Board, with the assistance of their Investment Consultant, will also review the overall investment program on at least an annual basis, or as appropriate. Key issues reviewed will include:

- Changes in the liability structure of the Fund or financial or benefits goals of the Trustees.
- Current trends and developments in the capital markets and manager community.
- The ongoing appropriateness of the policies included herein.



## APPENDIX

### **Illinois Compiled Statutes -**

40 ILCS 5/1-5/101 and 40 ILCS 5/17-101

## **Investment Search Policy**

Trustees will agree with the Investment Consultant before search begins on criteria for review of managers.

Investment Consultant shall secure an information update from all appropriate Chicago and minority firms prior to evaluating candidates. This process will be documented by Investment Consultant

Trustees will advise the Investment Consultant before search begins the number of candidates that will be on final list.

- Investment Consultant will maintain a list of semi-finalists, as determined by the Investment Consultant, and will have a list available at the meeting to review the finalists, with reasons a semi-finalist manager was not a finalist.

A Trustee may request during a Trustees' meeting or in writing for the Investment Consultant to review a particular manager candidate.

- If the requested manager is not a finalist, the Investment Consultant shall provide a written explanation.

All inquires to Trustees or staff from managers about how to become a candidate shall be referred to the Investment Consultant.

The finalist candidates and the Investment Consultant's analysis shall be provided to the Trustees no later than two (2) business days before the meeting.

- Prior to providing the list of finalists, the Investment Consultant shall not disclose the finalists to any Trustee, staff member, or manager.
- All lists of finalists shall be considered confidential and the Fund's proprietary information until discussed at the Trustees' meeting.

## **Board Resolution Regarding Brokerage**

### **Domestic Large and Mid Cap Equity (Active)**

Subject to best execution, each large capitalization active domestic equity manager for the Public School Teachers' Pension and Retirement Fund of Chicago is asked to direct 50% of the total commission dollars to brokers approved in the Board's Minority and Women Business Enterprise program that have an office in Chicago with a dedicated staff.

### **Domestic Small Cap Equity (Active) and Large Cap Equity Management (Passive)**

Subject to best execution, each small capitalization active domestic equity manager and large capitalization passive manager for the Public School Teachers' Pension and Retirement Fund of Chicago is asked to direct 35% of the total commission dollars to minority firms with a preference for brokers approved in the Board's Minority and Women Business Enterprise program that have an office in Chicago with a dedicated staff.

### **International Equity**

Subject to best execution, each active international equity manager for the Public School Teachers' Pension and Retirement Fund of Chicago is asked to direct 25% of the total commission dollars to brokers approved in the Board's Minority and Women Business Enterprise program that have an office in Chicago with a dedicated staff.

### **Fixed Income**

Subject to best execution, each active fixed income manager for the Public School Teachers' Pension and Retirement Fund of Chicago is asked to direct 25% of fixed income volume to brokers approved in the Board's Minority and Women Business Enterprise program that have an office in Chicago with a dedicated staff.

### **Reporting Guideline**

Each manager will submit a compliance report within 30 days of December 31 of each year. If a manager fails to comply with the above guidelines, they will be asked to appear before the Board of Trustees and explain why they were unable to achieve the stated targets.

## Fund Managers and Style Classifications

Fund Manager	Style Classification	If Guidelines and/or Benchmark Different than Policy
<b>Domestic Equity Index:</b>		
<i>Northern Trust Global Investments</i>	<i>Large Cap Equity Mid Cap Equity Small Cap Equity Core Bond Index</i>	
<i>RhumbLine Advisers</i>	<i>Large Cap Equity Large Cap Growth Small Cap Equity</i>	
<b>Large Capitalization Equity:</b>		
<i>New Amsterdam Partners LLC</i>	<i>Large Cap Core</i>	
<i>Waddell &amp; Reed Asset Management Co.</i>	<i>Large Cap Core</i>	
<i>Piedmont Advisors</i>	<i>Large Cap Core</i>	
<i>Harris Investment Management</i>	<i>Large Cap Value</i>	
<i>Lombardia Capital Partners</i>	<i>Large Cap Value</i>	
<i>Holland Capital Management</i>	<i>Large Cap Growth</i>	
<i>Lynmar Capital</i>	<i>Large Cap Growth</i>	
<b>Mid Capitalization Equity:</b>		
<i>Chicago Equity Partners</i>	<i>Mid Cap Core</i>	
<b>Small Capitalization Equity:</b>		
<i>Ariel Capital Management</i>	<i>Small Cap Value</i>	
<i>Dimensional Fund Advisors, Inc.</i>	<i>Small Cap Value</i>	
<i>J. W. Seligman &amp; Company, Inc.</i>	<i>Small Cap Growth</i>	
<b>All Capitalization Equity:</b>		
<i>Zevenbergen Capital, Inc.</i>	<i>All Cap Equity</i>	✓
<b>MWBE Manager of Managers</b>		
<i>Attucks Asset Management</i>	<i>All Cap Equity</i>	
<i>Northern Trust Global Investments</i>	<i>All Cap Equity</i>	
<i>Progress Investment Management Company</i>	<i>All Cap Equity</i>	
<i>United Investment Manager</i>	<i>ACWI ex-US</i>	

Fund Manager	Style Classification	If Guidelines and/or Benchmark Different than Policy
<b>International Equity:</b>		
<i>Lazard Asset Management</i>	<i>ACWI ex-US</i>	
<i>Morgan Stanley Investment Management</i>	<i>Core</i>	✓
<i>MFS Institutional Advisors</i>	<i>ACWI ex-US</i>	
<i>Earnest Partners</i>	<i>ACWI ex-US</i>	
<i>William Blair</i>	<i>MSCI ex-US Small Cap</i>	
<i>Acadian</i>	<i>ACWI ex-US</i>	
<i>Northern Trust Global Investments</i>	<i>EAFE Growth (Index)</i>	
<b>Public REITs</b>		
<i>Urdang Securities Management</i>	<i>REIT</i>	
<i>Morgan Stanley Investment Management</i>	<i>REIT</i>	
<i>Adelante Capital Mgmt.</i>	<i>REIT</i>	
<b>Private Equity</b>		
<i>Adams Street Partners</i>	<i>Fund of Funds / Co-direct</i>	
<i>HarbourVest Partners</i>	<i>Fund of Funds</i>	
<i>Hispania Private Equity Partners</i>	<i>Direct</i>	
<i>ICV</i>	<i>Direct</i>	
<i>Mesirow Financial</i>	<i>Fund of Funds / Co-direct</i>	
<i>Muller &amp; Monroe</i>	<i>Fund of Funds</i>	
<i>Pantheon Ventures</i>	<i>Fund of Funds</i>	
<i>Palladium</i>	<i>Direct</i>	

Fund Manager	Style Classification	If Guidelines and/or Benchmark Different than Policy
<b>Private Real Estate:</b>		
<i>UBS Global Asset Management</i>	<i>Core Private RE</i>	
<i>Capri Capital</i>	<i>Core Private RE</i>	
<i>CB Richard Ellis Investors</i>	<i>Non-core Private RE</i>	
<i>DV Urban Realty Partners</i>	<i>Non-core Private RE</i>	
<i>Fremont</i>	<i>Non-core Private RE</i>	
<i>Intercontinental Real Estate Fund</i>	<i>Non-core Private RE</i>	
<i>J.P. Morgan Investment Management</i>	<i>Core Private RE</i>	
<i>Merrill Lynch</i>	<i>Non-core Private RE</i>	
<i>Morgan Stanley</i>	<i>Non-core Private RE</i>	
<i>Olympus Real Estate Corporation</i>	<i>Non-core Private RE</i>	
<i>The RREEF Funds</i>	<i>Non-core Private RE</i>	
<i>Prudential Investment Management</i>	<i>Core and Non-core Private RE</i>	
<i>UrbanAmerica</i>	<i>Non-core Private RE</i>	
<i>Walton Street Capital, LLC</i>	<i>Non-core Private RE</i>	
<b>Fixed Income:</b>		
<i>LM Capital Group, LLC</i>	<i>Active Core</i>	
<i>Taplin, Canida &amp; Habacht</i>	<i>Active Core</i>	
<i>Western Asset Management</i>	<i>Opportunistic</i>	
<b>Cash:</b>		
<i>The Northern Trust Company</i>	<i>Short Term/Liquidity</i>	
<b>Infrastructure:</b>		
<i>JP Morgan</i>	<i>Global Infrastructure</i>	
<i>Macquarie</i>	<i>Global Infrastructure</i>	
<b>Hedge Funds:</b>		
<i>K2 Advisors</i>	<i>Fund of Hedge funds</i>	
<i>Mesirow</i>	<i>Fund of Hedge funds</i>	



Chicago Teachers' Pension Fund

### **Diversity Policy of the Chicago Teachers Pension Fund**

In an effort to encourage the development of emerging minority and women owned investment managers and brokerage firms, the Chicago Teacher's Pension Fund devotes:

- A minimum of 25% of actively managed assets shall be invested with minority and/or female organizations that meet the definition of emerging manager under the Illinois statute<sup>1</sup>. Within actively managed assets, a minimum of 15% of Private Equity and 15% of Real Estate assets will be invested with minority and/or female organizations.
- The Fund also mandates that its investment managers dedicate a portion of their brokerage commission dollars to M/WBE brokers that have been approved<sup>2</sup> by the Fund. 50% of active domestic large and mid cap equity commissions, 35% of active small cap and passive domestic equity commission dollars, 25% of international equity commission dollars and 25% of fixed income commission dollar from the Fund's investment managers must be dedicated to its approved M/WBE brokers.

<sup>1</sup> Please note that we consider emerging managers, women or minority owned firm with assets under management less than \$2.5B.

<sup>2</sup> The be an approved Broker with CTPF you must be a certified M/WBE and maintain a staffed office in Chicago.