Statement of Investment Policies and Objectives
For
Delaware Public Employees' Retirement System

As amended by the Board of Pension Trustees
May 30, 2014

Contents

Introduction

Background
The Investment Committee (the "Committee") was established as a subcommittee of the Board of Pension Trustees (the "Board"). Its members may include non-Trustees as well as Trustees. Its purpose is to oversee the investment management of all benefit plan assets under a process approved by the Board. The Delaware Public Employees' Retirement System ("DPERS") assets are maintained in a commingled master trust (the "Fund") for investment purposes. The Committee separately oversees the investment of the OPEB and the Delaware Volunteer Firemen Pension Plan.

Fiduciary standards apply to all persons with DPERS authority. The investment activity of the Board and the Committee is governed by the "Prudent Person" standard. The "Prudent Person" standard requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The Board, as fiduciaries, may retain experts whose activity is governed by the "Prudent Expert" standard. The "Prudent Expert" standard requires fiduciaries to discharge their duties with such skill, care, prudence and diligence under circumstances then prevailing, solely in the interests of participants and their beneficiaries, that a Prudent Person familiar with or having expertise in such matters would use in the conduct of an enterprise with similar characteristics and aims.

Purpose
The purpose of this document is to outline the investment policies and objectives of DPERS in order to assist the Board and Committee in effectively supervising and managing Fund assets. This policy provides a framework, which allows sufficient flexibility to capture investment opportunities while setting reasonable parameters to ensure prudence and care in the execution of the investment program.

The investment policies and procedures described in this statement are subject to annual review. Revisions can be expected, upon Board approval, to reflect changing opportunities in capital markets, current law, Board policies, systems and procedures.

Investment Philosophy and Objectives

Investment Philosophy

The Board has established an investment philosophy that stresses a balance between risk and return. It seeks to provide returns, which meet or exceed its long-term return objectives including those related to the projected actuarial liabilities of the Fund. The Board sets actuarial assumptions to forecast funds needed to ensure benefits. The returns expected from the capital markets are beyond the control of the Committee. The cornerstone of the investment philosophy is management of downside risk in any 12-month period, while prudently maximizing the potential for long-term gain.

Objectives

To implement this investment philosophy, the Board has established the following goals:

- Achieve a real return objective (DPERS return less CPI) of 3% over long periods (approximately 15 years).
- Manage portfolio risk by controlling downside price fluctuations of the Fund in any 12-month period.
- Maximize total investment returns, consistent with Board objectives.

To achieve these objectives, the Board established the following investment policies:

- Allocate a minimum of 20% of assets to fixed income investments such as bonds and cash equivalents.
- Maintain a diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style or strategy.
- Monitor the performance of all investment managers using specific benchmarks.
- Control exposure to illiquid asset classes.
- Review, re-examine, and reconfirm the operation and results of the investment process regularly.
- Identify new long-term opportunities for risk reduction and improved investment returns.
- Review actuarial assumptions to ensure consistency with capital market expectations.

Roles and Responsibilities

Board of Pension Trustees
The Board is the ultimate fiduciary for administration of each pension benefit plan. It establishes and maintains broad policies and objectives for all aspects of Fund investments. Funding levels are determined by the General Assembly with recommendations from the Board.

The Board function is to provide oversight and set policy for the Fund consistent with the authority granted under Delaware law. It ensures that appropriate and consistent investment results are achieved on a cost effective basis for its members and beneficiaries while avoiding unacceptable risk levels. The Board may delegate certain of its duties as appropriate. The Board receives periodic reports and recommendations for asset management from the Committee and other experts.

Each member of the Board and each member of the Board's Committees are Fund fiduciaries. The duties of each fiduciary shall be discharged:

- Solely in the interests of the participants and their beneficiaries.
- For the exclusive purpose of providing benefits to eligible participants.
- With the care, skill, prudence, and diligence that a Prudent Person acting in a like capacity would use in the conduct of an enterprise of like character and with like aims.

The Board reports the major accomplishments and Fund performance results to the General Assembly. This data is generally presented in the Comprehensive Annual Financial Report (CAFR).

Pursuant to its authority in 29 Del. C. Sec. 8308(c)(5), the Board engages an Investment Advisor, and individual Managers. The Board delegates the operation of the Fund's investments to the Committee, as further outlined in the Policy.

Investment Committee
The Committee is responsible to the Board for:

- Operating the Fund within the stated objectives and policies established by the Board.
- Reviewing prospective risk levels and rates of return.
- Assuring investment diversification.
- Monitoring the performance of all investment managers and the total Fund.
- Recommending the selection and/or removal of investment managers, custodians, and investment advisors.
- Recommending strategic asset allocation, investment policies, and objectives.
- Recommending appropriate changes to actuarial assumptions.
- Recommending appropriate changes to this Investment Policy

The Committee currently meets 15 to 20 times a year and is comprised of a minimum of five (5) voting members. Members are appointed by the Board and need not be Trustees. At least two members of the Committee shall be current Board members. All others attend Committee meetings at the pleasure of the Committee Chair.

The Committee, with assistance from the Investment Advisor, manages the investment process and makes recommendations to the Board on policy, asset allocation, and manager action issues. The Investment Advisor, on behalf of the Committee, reports to the Board at each scheduled Board meeting.

The Board appoints an Executive Secretary for the Committee. The Executive Secretary reports Fund performance, records meeting minutes, and executes all other reports requested by the Committee.

The Board delegates specific authority to the Committee, including, but not limited to:

Authorities

- Approve Investment Manager changes to investment goals, objectives, guidelines, and fees. The Chair is authorized to execute amendments to manager contract documents which amend investment manager contracts related to investment objectives and guidelines and fees).
- Execute documents relating to term extensions, change in key man provisions, or other term changes of Board approved limited partnership or private equity investments..
- Increase or reduce existing non-traditional interests up to $10 million.
- Recommend liquidation or restructuring of a portfolio, as approved by the Board, including the hiring of Transition Managers as required. The Chair of the Committee is authorized to execute documents related to the retention of such Transition Managers.
- Review and manage all Proxy Voting according to policies formulated by the Committee and approved by the Board. After consultation with the Investment Advisor, decide on Proxy Voting recommendations for mutual funds or other investor-controlled vehicles owned directly by the Fund.
- Recommend liquidation of assets as needed to meet Fund obligations.
- Authorize transfer of securities for liquidation or write off to an investment manager who will make a determination of final value.

Controls

- Review an investment process flow chart.
- Review all investment manager fees.
- Review the use of derivatives in the Fund.
- Review use of soft dollars and commissions paid by investment managers or brokers.
- Review the competitive position of the services provided by the custodian bank.
- Review illiquid investments (private equity, non-traditional investments) regularly.
- Conduct an annual review of Investment Policies, including, but not limited to, the Derivatives Policy (Appendix V herein), the Proxy Voting Policy and their executions, (Appendix VI, herein), the Corporate Actions Policy (Appendix VII, herein), the Securities Lending Policy (Appendix VIII, herein) and the Soft Dollar/Commission Recapture Policies (Appendix IX, herein).
- Review the results of all regulatory compliance requests from Fund investment managers and investment advisors.

- Review and amend benchmarks established for the total Fund and for Fund investment managers.
- Review actuarial characteristics and comparative funded status of the Fund.

Pension Office

The Pension Administrator and one or more members of the Pension Office staff attend Committee meetings. The day-to-day operational activities of DPERS are performed by the State Pension Office, which is the primary control unit for all pension accounting and transactions. The staff reports directly to the Pension Administrator who is Executive Secretary to the Board. The content of the reports from the Pension Administrator to the Board should comport with this Investment Policy and any special requests from the Board. The Pension Office has responsibility to:

- Oversee the day-to-day operational activities of the Fund subject to policies established by the Board.
- Reconcile the investment account records between the investment managers and the custodian bank.
- Prepare the Fund's Comprehensive Annual Financial Report.
- Communicate periodically with the Board and the Committee.
- Assist actuaries in preparing recommendations for appropriate funding levels for the Fund.
- Process contributions and disbursements from the Fund.
- Act as signatory on Fund investment accounts, establish safekeeping accounts or other arrangements for the custody of securities, and execute such documents as may be necessary to administer the Fund.
- Facilitate transfer of Fund assets between asset classes and investment management firms.
- Assist the Committee, investment managers, investment advisor, actuary, auditor and other consultants to meet the overall objectives of the Fund.
- Maintain the qualified status of the pension plans invested in the DPERS Trust through the filing of IRS determination letters and any ongoing compliance monitoring.

Investment Advisor

The Investment Advisor attends Committee meetings (about 15-20 times per year) and works closely with the Pension Office. The Investment Advisor will:

- Act in a fiduciary capacity as investment advisor to DPERS funds, pursuant to a "Prudent Expert" standard.
- Prepare research and recommendations for consideration by the Committee on matters affecting investments. Prepare investment policies and objectives and recommend appropriate changes.
- Advise the Committee and Board on the risk level of the Fund and recommend changes to improve the risk-return positioning of the Fund.
- Monitor and report long-term capital market trends and recommend asset mix policies.
- Provide advice concerning the allocation of assets.
- Research investment related topics as requested by the Committee or Board.

- Recommend investment management firms, including Non-Traditional Investments, custodians, and other external service providers to implement the Fund's investment policies and objectives.
- Participate in investment manager, custody contract Non-Traditional Investment negotiations.
- Monitor voting of proxies and report results to the Committee.
- Measure, evaluate and report on investment managers' performance and characteristics, portfolio risk and compliance with Schedule "A", investment process and organization.
- Respond to data requests and provide support to the Pension Office and the Committee, as required.
- Provide updates at each Board meeting recapping the Committee's activities and Fund performance.
- Act as a liaison for contact between the investment managers and the Committee.
- Screen and recommend potential investment opportunities and investment managers.
- Attend each Audit Committee and other meetings as requested by the Board or Pension Office.
- Provide assistance and information requested by DPERS auditors and the Pension Office.
- Review DPERS custodian relationship and recommend service changes including cash management and securities lending.

Investment Managers

- Act in a fiduciary capacity in the management of Fund assets.
- Pursuant to the prudent expert standards, invest Fund assets with the care, skill, prudence and diligence that an expert investment manager, familiar with such matters and acting in a like capacity, would use in the investment and management of such assets.
- Comply with all state and federal legislation and regulations that apply to the Fund.
- Adhere to the investment policies and guidelines prescribed by the Board, committees, or advisors.
- Initiate communication with DPERS and its Investment Advisor whenever the investment manager believes the terms of Schedule "A" should be amended.
- Adhere to directives from the Pension Office to liquidate or transfer assets.
- Submit monthly transaction and accounting reports to the custodian bank, Pension Office, and Investment Advisor.
- Provide the Committee with annual reports detailing transaction activities, brokers, commissions paid, and use of soft dollars.
- Minimize total transaction costs incurred in managing Fund assets.
- Vote proxies and supply related information in accordance with the Board Proxy Voting Policy.
- Meet with DPERS or its representatives on a regular basis to review performance.

Custodian Bank

- Act in a fiduciary capacity as a directed trustee for DPERS funds.
- Provide safekeeping of securities, collect dividends and interest earned, make disbursements and receive cash flows as directed, and provide an annual SOC-1 Report.

- Provide complete and accurate accounting records including each transaction, income flow and cash flow by asset class, investment manager, and total fund.
- Monitor and reconcile all trading activity.
- Monitor and file foreign tax reclaims.
- Monitor and file class action claims on behalf of DPERS.
- Issue monthly reports of holdings and transactions priced in accordance with industry standards.
- Meet periodically with the Pension Office, the Committee, and Audit Committee to report on the activity of the Fund and bank organizational issues.
- Provide periodic reporting to the Pension Office including:
    - Estimated Market Value and Cash Flow Report - By fifth business day of each month.
    - Master Trust Reporting – By total fund, asset class and plan account.
    - Monthly Custodial Bank Account Reconciliations.
    - Nontraditional Investment reconciliations.
    - Fiscal Year-to-Date Audit Reports and Most Recent SOC-1 report.
    - Monthly Report Filing of Claims and Class Actions.
    - Monthly Report Brokerage Activity.
    - Daily online access to all Fund account activity and valuations.
    - Annual detailed report of all fees paid by DPERS to the custodian.

Audit Committee

The Board's Audit Committee is authorized to undertake the following actions:

- Advise and monitor the integrity of DPERS accounting policies, internal controls, financial statements, financial reporting practices, and significant risk exposures with the assistance of DPERS management, its independent auditors, and the State Auditor.
- Monitor the qualifications, independence, and performance of independent auditor.

In addition, the Audit Committee may review Board activity as related to compliance with State and Federal laws, Board policies, Internal Revenue Service and Department of Labor regulations, and Financial Accounting Standards Board and Government Accounting Standards Board, without approval by the Board.

Asset Allocation

The Committee establishes strategic asset allocations to various investment markets subject to the following guidelines:

- The Fund is actively managed to maximize return within a risk band reflecting the risk tolerance defined by the Board. Currently, the Fund is managed to limit the probability of downside risk greater than negative 10% in any 12-month period.
- The Committee will regularly examine both the risk tolerance and asset allocation policies of the Fund.

Limits, which govern the Fund's exposure to different asset categories, are established within broad ranges. The guide below outlines the asset class ranges:

	Percent of Total Fund Allocation [1]	
Fund Segment	**Minimum**	**Maximum**
Marketable Investments		
Equity (including Convertibles)	20%	80%
Fixed Income (including Cash) [2]	20% [2]	80%
Total Marketable Investments	**70%**	**100%**
Non-Traditional Investments		
Illiquid Investments	0%	30%
Other Diversification Strategies	0%	20%
Total Non-Traditional Investments	**0%**	**30%**
Total Fund	100%	

[1] The Fund will rarely be fully invested at the minimum or maximum limits, and some assets will be held in cash.

[2] A minimum of 15% of the Fund is to be invested in investment grade fixed income securities or cash equivalents.

In general, higher risk is associated with higher expected returns. The Board and the Committee examine both the Fund's risk tolerance and risk preference when formulating investment policy. Risk tolerance characteristics include the following objectives:

- Providing benefit security to plan participants by maximizing long-term return consistent with acceptable downside risk.
- Maintaining adequate liquidity to meet DPERS' cash flow requirements.
- Minimizing the long-term cost of providing Plan benefits.
- Maintaining the well-funded status of the Plans.
- Avoiding unexpected increases in contributions.
- Evaluating actuarial, demographic, and funding characteristics of DPERS.

Key information is required to develop an optimum mix of asset classes to achieve the Fund's objectives:

- Historical and prospective returns for each asset class or strategy.

- Equilibrium return for each asset class or strategy.
- Prospective volatility for each asset class or strategy.
- Correlation among the returns for each asset class or strategy.
- Constraints of the investment policy of the Fund.

To facilitate the accomplishment of both the risk and return objectives of the fund, asset allocation will generally be managed to an objective of potential downside volatility in the range of 45% to 65% of that of the S&P 500 stock index, based on estimated downside volatility and correlation of and among each asset class or strategy, noting that the Fund may deviate from this range provided the Board and its Committee support such a situation.

Investment Performance Objectives

Investment performance objectives are necessary for proper measurement and evaluation of the success of the investment program. DPERS' performance benchmarks for the Fund have been established in consideration of the following objectives:

- Administration of Plan benefits.
- Management of risk tolerance.
- Development of asset allocation policies.
- Coordination of investment manager structures.

Investment performance is best measured over a period of three to five years. Total Fund, Asset segment and individual manager performance will be compared to appropriate benchmarks as specified in the chart below.

Asset Segment/Strategy	**Benchmark***
Total Fund:	**--** Consumer Price Index (CPI) plus 3% -- 38% Russell 3000 Equity Index / 20% MSCI All-Country ex-USA Equity Index / 38.5% Barclays Capital Universal Bond Index / 1.5% Barclays Capital Treasury Inflation Protected Bond Index / 2% 91 Day Treasury-Bill -- Limit potential and actual downside price fluctuations of the Fund in any 12-month period.
Total Domestic Equity	**Russell 3000 Index**
Total International Equity	**MSCI All-Country World ex-USA Index**
Fixed Income TIPS	Barclays Capital Treasury Inflation Protected Securities (TIPS) Index
Total Fixed Income	**Barclays Capital Universal Bond Index**
Non-Traditional Investments:	
Private Equity	Russell 3000 Index
Long/Short Strategies	Equity Benchmark

*Where appropriate, benchmark return comparisons will be made net of all fees. Total Fund returns will be compared to an appropriate peer universe, gross of fees.

Standards of Care

Prudence
The standard of care, which governs members of the Board, the Committee, Audit Committee, and the Pension Administrator, is the "Prudent Person" standard. Actuaries, auditors, special counsel, investment advisors, investment managers, custodian bank, and any service provider retained for a specialized purpose are governed by the “Prudent Expert” standard.

The "Prudent Person" standard requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise of similar character and with similar aims. A "Prudent Expert" must discharge their duties with such skill, care, prudence, and diligence under circumstances then prevailing, solely in the interests of participants and beneficiaries that a Prudent Person familiar with or having expertise in such matters would use in the conduct of an enterprise of similar character and with similar aims. The advice given by a Prudent Expert to the Plan, the Fund, and/or the Board, must be directed to the exclusive interests of the Plan beneficiaries, and for the exclusive purpose of providing benefits in accordance with plan documents. The actions of a Prudent Expert will be assessed taking into account all relevant substantive factors as they appeared at the time of the decision, not in hindsight. All external service providers will acknowledge, in writing, their fiduciary obligation to the Plan, the Fund, and/or the Board.

Ethics and Conflicts of Interest
- All members of the Board, the Committee, the Audit Committee, the Pension Administrator and the Investment Advisor are Fund fiduciaries with a duty of loyalty to DPERS and responsibility to observe the exclusive benefit rule.
- All members of the Board, the Committee, the Audit Committee, the Pension Administrator, the investment managers, and the Investment Advisor shall disclose any conflict of interest with DPERS investments, and shall comply with the DPERs Code of Conduct.
- All investment managers and the Investment Advisor shall disclose any investigations conducted by or referred for investigation by the Securities and Exchange Commission.
- All investment managers, Investment Advisors, and custodian banks shall disclose all third-party relationships, which in any way involve payment of fees, shared fees, or any other "soft dollar" exchanges, which have not been disclosed.
- Upon request, each investment manager and Investment Advisor shall disclose its ethics policy to the Board.

Consistent with the DPERS’ Code of Conduct, the Standard of Care emphasizes advance disclosure of relevant conflicts of interest. All identified conflicts are reviewed on a case-by-case basis. The Board, the Committee Members, Audit Committee Members, key staff of the Pension Office and the personnel of the Investment Advisor directly involved in the investment process (collectively, “DPERS Advisors”) are annually required to represent that they do not engage in financial transactions with DPERS’ investment managers on terms more favorable than the Fund’s investment terms. Further, no such DPERS Advisors may accept any compensation, gift, payment of expenses or any other thing of monetary value (unless it is a token, educational or promotional item of nominal value) under circumstances in which such acceptance may result in any of the following:(1) Impairment of independence of judgment in the exercise of official duties; (2) An undertaking to give preferential treatment to any person;(3) The making of a investment decision outside the Board's approval process; or (4) Any adverse effect on the confidence of the public in the integrity of the Board.

DPERS Advisors involved in the investment process shall refrain from personal business activity that may conflict with the proper execution and management of the investment program, or that may impair their ability to make impartial decisions. DPERS Advisors shall conduct themselves with integrity and act in a professional and ethical manner in their dealings with fellow DPERS Advisors including, but not limited to, the Board Chair, the Pension Administrator, the Audit Committee Chair, members of all Board advisory committees, consultants, advisors, employees, and the general public. DPERS Advisors shall maintain high ethical and moral character, both professionally and personally, such that their conduct shall not reflect negatively upon DPERS. DPERS Advisors shall act with competence and shall strive to maintain and improve their competence and that of their fellow DPERS Advisors. DPERS Advisors shall not release or provide access to any confidential information obtained or developed while servicing DPERS, including, but not limited to, any information obtained relating to Investments, Investment Managers, or other non-public investment information of DPERS. DPERS Advisors are prohibited from self-dealing, conducting private business, or providing personal services between or among other DPERS Advisors, except as approved through advanced disclosure. DPERS Advisors may not use their positions to obtain advantage for themselves, their family members, or close associates. DPERS Advisors and Investment Managers are required to disclose the details of any SEC investigations as well as all third-party relationships which in any way involve payment of fees, shared fees, or other exchanges which have been disclosed, including gifts, gratuities or repayments, including but not limited to placement agents, third-party solicitors, and/or lobbyists for private equity or hedge funds.

Appendix I: Definitions

"**Actuary**" shall mean a Prudent Expert statistician retained for the calculation of insurance and annuity premiums, reserves, and dividends, for the purpose of formulating funding assumptions.

"**Asset Allocation**" shall mean the process of assigning Fund assets among major asset classes such as stocks, bonds, cash, or alternative investments for the purpose of reducing risk through portfolio diversification.

"**Auditor**" shall mean the independently retained audit firm or the State Auditor of Accounts, each of whom conduct an unbiased examination to ensure the fiscal accuracy, internal control, and fiduciary responsibility of DPERS.

"**Benchmark**" shall mean a standard against which the performance of a Security, instrument, index, investment manager, total fund or fund segment can be measured.

"**Board**" shall mean the DPERS' Board of Pension Trustees.

"**Bond**" shall mean a debt instrument, which provides a financial return over a defined period of time at a specific rate of interest.

"**Broker**" shall mean an individual or firm charging a fee or commission for executing buy and/or sell orders initiated by an investment manager.

"**Cash Equivalent**" shall mean short-term high quality marketable securities that are readily convertible to cash, such as U.S. Treasury bills, commercial paper, and bank certificates of deposit.

"**Commingled Fund**" shall mean a fund, which blends several accounts together in a pool of funds.

"**Committee**" shall mean the Investment Committee of the Board of Pension Trustees.

"**Comprehensive Annual Financial Report**" (CAFR) shall mean an annual report prepared by for Board of Trustees detailing the financial status and activities of the Fund.

"**Conflict of Interest**" shall mean an interest which could impair the judgment of a fiduciary in the performance of his/her duties with respect to any matter, including any action or inaction which would result in a financial or consequential benefit or detriment to the person or a close relative, or any violation of the provisions of the DPERS Code of Conduct and the "State Employees', Officers', and Officials' Code of Conduct".

"Consumer Price Index" (CPI) shall mean the monthly index, compiled by the Bureau of Labor Statistics, of the cost of living that measures price changes for specific goods and services over time. The periodic change in this index is most often used as the inflation rate.

"**Custodian Bank**" shall mean a financial institution with legal and fiduciary responsibility for retaining the assets of DPERS. The standard of care applied to the Custodian Bank is the Prudent Expert standard.

“**Derivatives**” shall mean any financial instrument (Security or contract) whose value is determined by the value of some underlying asset or contract such as stock or bond prices, interest rate levels, or currency exchange rates. Such derivative instruments include, but are not limited to: Options and futures contracts, forward contracts, swaps, and derivative securities, such as mortgage-backed bonds and structured notes.

“**Diversification**” shall mean a risk management technique, which blends a broad variety of investment styles and asset classes within an investment portfolio.

“**Dividend**” shall mean cash or non-cash distribution to a class of shareholders or investors.

“**DPERS**” shall mean the Delaware Public Employees’ Retirement System.

“**Fiduciary**” shall mean those persons holding the duty of loyalty, care, and prudence to DPERS, pursuant to a “Prudent Person” or “Prudent Expert” standard.

“**Fixed Income Security**” shall mean an investment instrument, which provides a return in the form of fixed periodic payments and an eventual return of principal at maturity.

“**Fund**” shall mean the Master Trust holding all assets of DPERS, including those funds commingled for investment purposes only, managed by the Board of Pension Trustees.

“**Gift**” shall mean any gratuity, property, money, or tangible or intangible object of value received in exchange for nothing of value in return.

“**Hedge Fund**” shall mean investments involving the use of specialized instruments, such as financial futures and options, to modify the risk characteristics of a portfolio.

“**Illiquid Asset**” shall mean an asset or security whose conversion to cash at fair market value is limited for a certain period of time.

“**Investment Advisor**” shall mean the firm retained for expert advice regarding all investment matters. The Investment Advisor, whose conduct is governed by the “Prudent Expert” standard, serves as Executive Secretary to the Committee.

“**Investment Manager**” shall mean an expert individual or firm, whose conduct is governed by the “Prudent Expert” standard, retained to manage assets, implement an assigned investment strategy, and supervise and direct the day-to-day activities for the portfolio.

“**Investment Return**” shall mean the income and appreciation or depreciation (realized or unrealized) of the fair market value of an investment or pool of investments over a given evaluation period.

“**Limited Partnership**” shall mean an association of partners formed to conduct a joint venture in which the specific terms of the venture, including shared liabilities and expenses, as well as administration of the entity, are defined.

"**Marketable Investment**" shall mean a category of assets or investments, which generally exhibit similar characteristics such as stocks, bonds, cash, and fixed income instruments, which trade in liquid securities markets.

"**Non-Traditional Investment**" shall mean alternative asset classes as distinguished from traditional asset classes, whose potential economic value may be variable, such as private equities, venture capital, and other diversification strategies. These types of investments tend to be illiquid or less liquid than Marketable Investments.

"**Pension Administrator**" shall mean the Director of the Pension Office.

"**Proxy Voting**" shall mean the process of voting for a public company's directors or corporate governance issues in which each shareholder is entitled to one vote per share.

"**Prudent Expert**" shall mean a fiduciary responsibility to discharge one's duties to DPERS with such skill, care, prudence and diligence under circumstances then prevailing, solely in the interests of participants and their beneficiaries, that a Prudent Person familiar with or having expertise in such matters would use in the conduct of an enterprise with similar characteristics and aims.

"**Prudent Person**" shall mean a fiduciary responsibility to discharge one's duties to DPERS solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar characteristics and aims.

"**SOC-1**" shall mean a report on the controls at a service organization pursuant to AICPA Statement on Standard for Attestation Engagements (SSAE) 16.

"**SEC**" shall mean the Securities & Exchange Commission.

"**Security**" shall mean liquid or illiquid instruments including stocks and bonds.

"**Soft Dollar**" shall mean payment for services from brokerage firms through commission revenue, in contrast to normal payments (hard dollars).

"**STIF**" shall mean short-term investment fund, which invests in short-term investments of high quality and low risk.

"**Transition Manager**" shall mean an investment manager retained on an interim basis for the specific purpose of liquidating or purchasing certain assets.

Appendix II: Descriptions of Indices

Index Descriptions

Consumer Price Index (CPI)
Monthly index, compiled by the Bureau of Labor Statistics, of the cost of living that measures price changes for specific goods and services over time. The periodic change in this index is most often used as the inflation rate.

Barclays Capital Universal Bond Index
The Barclays Capital Universal Bond Index is a market value-weighted index representing securities that are SEC-registered, taxable, and dollar denominated. In addition to the entire BC Aggregate index, which covers the U.S. investment grade fixed rate bond market, this index covers other dollar-denominated sectors, including high yield bonds, Euro-dollar denominated debt, CMBS and related 144a securities.

Barclays Capital U.S. Treasury Inflation Protected Securities (TIPS) Index
The Barclays Capital U.S. TIPS Index is an index designed to measure the performance of securities that protect against adverse inflation and provide a minimum level of real return. To be included in this index, bonds must have cash flows linked to an inflation index, be sovereign issues denominated in U.S. currency, and have more than one year to maturity.

MSCI All-Country World Ex-USA Index
Morgan Stanley Capital International All-Country World ex-USA Index is a free-float-adjusted market capitalization index designed to measure developed and emerging market equity performance, *excluding* the United States.

Russell 3000 Index:
The Russell 3000 Index measures large and small cap stocks. It represents the 3,000 largest U.S. companies based on total free-float market capitalization.

Standard & Poor’s 500 composite Stock Index (S&P 500)
The stocks in this index are chosen by Standard's and Poor based on industry representation, liquidity, and stability. The S&P 500 is an index designed to capture the returns of the largest corporations across the different sectors of the U.S. economy.

U. S Treasury Bill
This U.S. government issued debt Security has a maturity of less than 1 year. The Fund uses the 91-Day Treasury Bill.

Appendix III: Evaluation and Review Process

Total Fund Review

The Committee and the Investment Advisor will periodically review the Fund’s investment program to determine whether:

- The investment program adheres to established investment polices and guidelines.
- Each investment manager adheres to investment guidelines and relevant benchmarks.
- Fund investment policies continue to be appropriate regarding allocation of assets among asset classes, investment manager structure, and investment objectives and guidelines.
- Investment management fees are reasonable.

Investment Manager Review

The Committee and/or the investment advisor will, at least annually, meet with each investment manager to review investment results, expected performance, economic outlook, current strategy, organizational characteristics, and investment approach. The Committee may approve or reject changes to Investment Objectives, Guidelines and/or fees and compensation, , contract amendments, and/or other special requests of the investment manager.

An investment manager may be terminated by the Board for any reason or identified on an "exception list" by the Committee for reasons including, but not limited to, the following:

- Change in Fund strategy or objectives.
- Qualitative changes in the investment process, personnel, or other organizational issues associated with the investment management firm.
- Quantitative changes including underperformance, change in risk profile, or style.
- Legal issues or violation of the Fund’s investment policies.
- Failure to communicate in accordance with established reporting requirements.

Investment Advisor Review

The performance of the Investment Advisor shall be reviewed by the Committee at least annually for:

- Progress towards objectives and goals set at most recent review.
- Overall services including contributions to fund performance, organizational development, and competence.

Appendix IV: Investment Manager Guidelines

The Fund's assets may be invested in separately managed accounts, commingled funds, mutual funds, or other investment vehicles, depending upon administrative and cost considerations.

Permissible investments include but are not limited to the following:

Marketable Investments

Equity Investments

- Common Stock
- Preferred Stock
- Convertible Securities

Fixed Income

- U.S. Treasuries, Agencies, Foreign Governments and Government Sponsored Corporations
- Corporate Debt
- Mortgage and Asset Backed Securities
- Cash and Cash Equivalent Securities, Money Market Funds, and Short-Term Investment Funds (STIF's)

Non-Traditional Investments

- Private Equity
- Real Estate
- Hedge Funds
- Commodities
- Derivative Contracts (See Derivative Policy for more details on allowed derivative investments, and regulatory compliance.)

General Investment Restrictions and Guidelines

The following transactions are restricted unless specifically authorized by DPERS:

- Purchase of securities on margin.
- Purchase of non-registered securities.
- Short sales.
- Pledge, mortgage, or hypothecate any securities except for loans of securities that are fully collateralized.
- Purchase securities of the trustee, investment manager, its parent, or its affiliates.

Diversification and Credit Quality

Investment managers are responsible for achieving a level of diversification in their portfolio that is consistent with their investment approach and their role in the Fund's overall investment structure. Managers may be retained to concentrate in specific market segments. General diversification requirements may be waived by the Committee.

Schedule "A" - Investment Objectives and Guidelines for Equity and Fixed Income Managers

The Schedule "A" attached to each separate account/custodied Investment Management Agreement identifies the mutual understanding between the investment manager and the Committee with respect to the expected behavior of the account. These guidelines may include an absolute, benchmark-relative, and/or peer-relative return objective. A specific list of permissible investments for the account, guideline ranges for turnover, volatility, yield, asset exposures, and diversification is typically included. Managers are expected to initiate recommended changes to Schedule "A". However, agreement by the Committee prior to action on such recommendation is required.

Minimum diversification, quality, and liquidity requirements for Schedule "A" (excluding sector special mandate managers) include consideration of the following:

Equity and Fixed Income Manager Considerations for Inclusion in Schedule "A":

- Total return objective.
- Asset options.
- Expected portfolio volatility.
- Cash return from interest and dividends.
- Average annual turnover.
- Normal investment ranges.
- Brokerage restrictions.
- Reporting and account reconciliation procedures.

Non-Traditional Investment Manager Arrangements

Any Non-Traditional Investment shall be subject to a negotiated agreement that describes the investment arrangement in detail, including fees, investment paid, sunset provisions, key man clauses, and other provisions deemed beneficial to Fund interests. All Non-Traditional Investments shall support the investment goals and objectives of the Fund and be negotiated in the best interest of the Fund and its participants.

Appendix V: Derivatives Policy

Purpose

This section addresses the guidelines and limitations that each designated investment manager must meet in the use of derivative instruments. “Derivatives” refers to any financial instrument (Security or contract) whose value is determined by the value of some underlying asset or contract such as stock or bond prices, interest rate levels, or currency exchange rates. Such derivative instruments include, but are not limited to: Options and futures contracts, forward contracts, swaps, and derivative securities, such as mortgage-backed bonds and structured notes.

Selected investment managers are permitted to use derivatives as identified in separately managed account Schedule "A" or commingled account, partnership or similar commingled vehicle documentation. Except where recommended by the Committee and approved by the Board the type of derivatives used and the limits on their use are identified in the addendum to the investment manager’s contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the Fund, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. All Derivative investments by managers must comply with Dodd Frank regulations as further described below.

Derivative Philosophy

The Fund uses derivatives only in limited and carefully defined circumstances.   Derivative instruments are permissible in an investment portfolio only to the extent that they comply with the Fund's policy guidelines:

- To reduce market risk by hedging a portion of a manager's portfolio using a futures contract that is closely related to the asset being hedged.
- To eliminate all or a portion of the currency risk of international investments by hedging such investments back into dollars using forward foreign exchange contracts.
- To facilitate trading by using derivative markets, in lieu of cash markets or in lieu of holding physical securities, either to permit cash enhancement strategies or to capitalize on mispricing of derivatives.
- To enhance returns in connection with quantitative, tactical asset allocation vehicles.
- To pursue a well-diversified investment strategy with preferable risk-return characteristics, which may entail the use of leverage through derivatives. Any such strategy must be specifically understood and recommended by the Committee and approved by the Board as an exception to this policy and any potential loss from the use of leverage must be confined to the assets allocated to that strategy.

Examples of acceptable activities involving the use of derivative products include:

Category	**Purpose**
Foreign Exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies; Enhance return
Exchange traded futures contracts	Reduce transaction costs; Hedge equity market risk; Control fixed income portfolio duration; Enhance return

Exchange traded options contracts	Enhance return; Reduce transaction costs
Asset backed securities	Enhance return

Swap Compliance

For the purposes of any Separate Account (non-comingled):

Consistent with the Commodity Futures Trading Commission ("CFTC") Regulation §23.450, before permitting any investment manager to engage in swaps on DPERS behalf, DPERS shall have a reasonable basis to believe that such representative

(i) has sufficient knowledge to evaluate the transaction and risks;

(ii) is not subject to "statutory disqualification," which term means grounds for refusal to register or revoke, condition, or restrict the registration of the investment manager as set forth in Sections 8a(2) and 8a(3) of the Commodities Exchange Act, as amended, ("CEA");

(iii) is "independent" of the swap dealer or major swap participant within the meaning of Regulation §23.450(c), and a representative will be deemed to be independent of the swap dealer or major swap participant if:

(a) the representative is not and, within one year of representing DPERS in connection with the swap, was not an associated person of the swap dealer or major swap participant within the meaning of Section 1a(4) of the CEA;

(b) there is no principal relationship between the representative of DPERS and the swap dealer or major swap participant;

(c) the representative: (1) provides timely and effective disclosures to DPERS of all material conflicts of interest that could reasonably affect the judgment or decision making of the representative with respect to its obligations to the special entity; and (2) complies with policies and procedures reasonably designed to manage and mitigate such material conflicts of interest;

(d) the representative is not directly or indirectly, through one or more persons, controlled by, in control of, or under common control with the swap dealer or major swap participant; and

(e) the swap dealer or major swap participant did not refer, recommend, or introduce the representative to DPERS within one year of the representative's representation of DPERS in connection with the swap;

(iv) undertakes a duty to act in the best interests of DPERS;

(v) makes appropriate and timely disclosures to DPERS;

(vi) evaluates, consistent with any guidelines provided by DPERS, fair pricing and the appropriateness of the swap; and

(vii) is subject to restrictions on certain political contributions imposed by the CFTC, the Securities Exchange Commission, or a self-regulatory organization subject to the jurisdiction of any of such commissions.

The determination required herein above shall be made by: Pension Office Investment Staff, who may rely upon written representations provided by the applicable representative, which may be in the form approved by the Pension Office.

Appendix VI: Proxy Voting Policy

The Board recognizes that proxy votes constitute assets of the Fund, and acknowledges its fiduciary duty to vote all proxies.

The Board may, from time to time, create and/or amend a policy on specific Proxy Voting issues. The Investment managers retained by the Board hold expertise in securities matters and in the movements of the capital markets, which may cause voting on specific proxy issues to change. For this reason, the Board delegates to each investment manager the duty to determine the proper vote to be exercised timely on all proxies, for each issue presented. Investment managers are required to vote proxies after careful assessment of the issues involved, and in accordance with their professional judgment and fiduciary duty to DPERS, and in the best interest of the Fund.

Investment managers of custodial equity accounts or of separate accounts are further required to report all Proxy Voting activity to the Board, through formal reporting to the investment advisor. At least annually, or more often if required, the Committee shall review all Proxy Voting activity of the Fund.

If proxy votes take place for mutual funds or other investor-controlled investment vehicles owned directly by the Fund, such votes will be executed in the best interests of participants. In such cases, the Investment Advisor will recommend a course of action to be reviewed by the Committee. The Pension Office then votes the proxies in accordance with the Committee's decision.

Appendix VII: Corporate Action Policy

The Custodian Bank administers and files all documents for corporate actions and Notice of Claims in which DPERS is a member of the class of a class action lawsuit, on behalf of DPERS. The Custodian Bank shall notify DPERS of any request for information by third parties for DPERS financial information, including, but not limited to, subpoena or other discovery requests.

Appendix VIII: Securities Lending Policy

The Committee may recommend, and the Board may approve, from time to time, an agreement to engage in securities lending of DPERS' securities held in separately managed accounts, by DPERS' Custodian Bank or other qualified parties. In certain commingled accounts, DPERS may indirectly participate in securities lending.

First adopted by the Board 5/26/07.

Appendix IX: Soft Dollar/Commission Policies

The Board requires disclosure by its separate account investment managers of third-party relationships with respect to brokerage commission dollars. DPERS expects the purchase and sale of securities to be directed through brokerage firms offering the best price and best total execution (commission plus market impact).

Soft dollar or commission sharing arrangements may exist between brokers and investment managers. Broker selection is the responsibility of the individual investment managers. All separate account investment managers using soft dollars or commission sharing arrangements are required to provide the following information to the Committee:

- A statement of the investment manager's policy on soft dollar and commission sharing use.
- A list of services paid with soft dollars or commissions indicating whether these services are available for hard dollars.
- The amount of DPERS' commissions attributable to each soft dollar service over the fiscal year.

Appendix X: Cross-Trading Policy

Cross-trading of securities is the trading of the Fund's securities by a designated investment manager with another client of the same investment manager. Such trading usually occurs away from a publicly recognized securities exchange at a price either determined to be the midpoint of quoted bid-ask spreads or, if at the end of a trading day, at the closing price for that day.

The Board's policy on cross-trading of securities is to permit such cross-trading provided the designated investment manager has been given prior authorization by the Committee and provided such tradingcomplies with the provisions, reporting requirements, trading policies and procedures of applicable Securities and Exchange Commission and Department of Labor rules and regulations.