

***MUNICIPAL FIRE AND POLICE
RETIREMENT SYSTEM OF IOWA
(MFPRSI)***

"STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES"

2008

Adopted by the Board of Trustees: January 17, 2008

TABLE OF CONTENTS

SECTION	PAGE
- TABLE OF CONTENTS	2
I. DESCRIPTION OF SYSTEM	3
II. A. STATEMENT OF PURPOSE	4
B. INVESTMENT GOALS & STRATEGIC ASSUMPTIONS	5
C. GENERAL INVESTMENT POLICIES	7
III. RESPONSIBILITIES	
A. BOARD OF TRUSTEES	13
B. INVESTMENT CONSULTANT	14
C. ADMINISTRATION	16
D. INVESTMENT MANAGERS	17
E. CUSTODIAN BANK	19
IV. ASSET ALLOCATION	20
V. ASSET GUIDELINES	22
VI. INVESTMENT OBJECTIVE & PERFORMANCE STANDARDS	24
- EXHIBIT A: DEFINITION & DESCRIPTION OF PORTFOLIOS	25

I. DESCRIPTION OF SYSTEM

The Municipal Fire and Police Retirement System of Iowa (the “System”) is a statewide retirement system for fire fighters and police officer personnel employed in Iowa's largest cities.

Pursuant to State of Iowa Code Section 411.7 (as amended by Chapter 1240, Act of the 1990 Iowa General Assembly), effective January 1, 1992, the retirement System consolidated eighty-seven local retirement systems previously administered in forty-nine cities.

Permanent, full-time firefighters and police officers in the participating cities are automatically System members (“Participants”). Participants are vested upon attaining four years of membership service under the System.

The System is a defined benefit plan, maintained to provide income to employees upon their retirement. The System also provides benefits in the event of an employee's death or disability, or in the event of a vested employee's termination of employment prior to normal retirement. The System's fiscal year runs from July 1 through June 30.

II. A. STATEMENT OF PURPOSE

The "Statement of Investment Policies and Objectives" (the "Statement") is intended to:

- A. Delineate the investment related responsibilities of the Board of Trustees, the Administration, and the providers of investment services which the System retains to manage the System's assets.
- B. Establish formal yet flexible investment guidelines, which incorporate prudent asset allocation and realistic total return goals.
- C. Provide a framework for ongoing communication between the Board of Trustees, the Administration of the System and the System's providers of investment services.
- D. Create standards of investment performance that are reasonable, consistent with the goals of the Board of Trustees, and by which the Investment Managers agree to be measured over time.

It is anticipated that this Statement will be reviewed annually by the Board of Trustees to insure the relevance of its contents to investment market conditions and System needs.

II. B. INVESTMENT GOALS & STRATEGIC ASSUMPTIONS

1) INVESTMENT GOALS

The investment activities of the System are designed to meet the ongoing funding requirements of the benefit plans with which it is charged under Iowa Code Chapter 411.

The comprehensive goals of the investment program are as follows:

- 1) Meet the ongoing financial needs of the benefit plan as defined by the System's actuary, consistent with conservative actuarial policies.
- 2) Create the opportunity for periodic consideration (targeted at every 2 - 5 years) of benefit program enhancements and contribution rate adjustments, contingent upon the availability of favorable returns in the various capital markets.

Additional goals for the retirement system's investment program are as follows:

- To implement the requirements of the program as delineated within this "Statement of Investment Policies and Objectives".
- To provide for an investment program which shall serve the best interests of the members and beneficiaries of the System and which are reflective of the financial capabilities of their employers.
- To provide for a return on investment that, when combined with the periodic contributions of the membership and their employers, will meet the funding needs of the benefit plans.
- To meet or exceed the actuarial interest rate assumption as established by the Board of Trustees, over extended periods.
- To meet or surpass the performance expectations established for the portfolios as described in this document.
- To provide for the establishment of relationships with investment management firms and consultants who further the achievement of the System's financial purposes and which provide for the continuing refinement of a comprehensive investment program.

Obtaining specific performance goals in individual portfolios and in the various investment markets is contingent upon the continuing growth of the capital markets. Performance over specific periods will vary in concert with the economic conditions of the environments in which the assets are invested.

2) STRATEGIC ASSUMPTIONS

Certain basic assumptions concerning the investment markets are the foundation for the development of the System's investment policy.

- 1) Over the long-term there is a distinct relationship between return and risk. Cash should be used for liquidity, bonds to provide income and reduce volatility of quarterly returns, stocks for long-term appreciation of assets above inflation, and real estate for diversification of risk.
- 2) It is extremely difficult to "time the stock market." Therefore, cash should be kept to a minimum and target allocations to stocks and bonds should be maintained within reasonable bands.
- 3) Diversification into global markets, by investment style, and across the market capitalization spectrum (in stocks) is essential both to manage risk and to maintain exposure to the entire capital markets opportunity set for maximum return.
- 4) The role of active portfolio management is to add incremental value relative to the diversification strategy of the plan. The role of passive management is to provide a core exposure in each of the various markets and to lower the overall costs of the management of the assets of the plan.
- 5) Diversification of the plan may include consideration and potential implementation of portfolios involving additional asset classes, such as real estate, emerging markets, etc.

II. C. GENERAL INVESTMENT POLICIES

The following general investment policies of the System are intended to meet the System's investment goals and represent the resolution of the Board of Trustees, in accordance with the "Prudent Person" mandate of Iowa Code Chapters 411 and 97B.

1) ASSET ALLOCATION POLICIES

a) "Asset Allocation Policy" - The System shall adopt and execute an asset allocation policy that is predicated on a number of factors, to include:

- The projected liability stream of benefits and their cost,
- The level of expected risk and of long-term capital markets' performance,
- The historical performance of the capital markets,
- The view of future economic conditions, to include inflation and interest rates assumptions,
- The relationship between the current and projected assets of the plan and its actuarial requirements, and
- The projected or expected changes in the level of financial support from its funding sources.

The policy will identify the classes of assets the System will utilize and the percentage they are intended to represent of the total fund. The policy is designed to provide for diversification of assets in an effort to enhance the investment return to the System consistent with market and economic risk. Additionally, this policy provides the framework for distribution of cash flows and establishes the projected rate of return and standard deviation of return. Section IV of this document delineates the "Asset Allocation Policy" as adopted by the Board of Trustees.

b) "Operational Expectations" - The System will invest its resources in conformity with the asset allocation policy enumerated in Section IV. The System expects that compliance with the specific allocation targets will, due to the fluctuation of the capital markets, be difficult to exactly obtain. Therefore, the Systems shall be viewed to be in compliance with the Asset Allocation Policy if the range of weights for the overall equity and debt portfolios is maintained.

II. C. GENERAL INVESTMENT POLICIES (continued)

2) PERFORMANCE POLICIES

"General Performance Expectations" - The performance of the System's investment program shall periodically be evaluated by the Board of Trustees. The general long-term performance expectations for the composite fund are as follows:

1. Performance that exceeds the rate of inflation as determined by the consumer price index (CPI),
2. Performance that exceeds the assumed actuarial rate of interest,
3. Performance that reflects the target asset allocation and appropriate indices for the various asset categories.

[See Section VI for specific performance expectations.]

3) RELATIONSHIP POLICIES:

a) "Investment Manager Policies" - To achieve optimum performance results in concert with diversification of its assets the System selects and utilizes external investment managers to manage portions of its assets. The selection of the managers is accomplished through a Request for Proposal (RFP) process or Request for Information process (RFI) (see 3-h below). Investment managers function under a formal contract that delineates its responsibilities and the appropriate performance expectation or under a formal trust or partnership agreement in which the System participates. When appropriate, the System may compensate the external investment managers through the use of performance fees. Soft dollars generated through brokerage activity may, if authorized by the contract, be used to acquire investment research and analysis and to defray various administrative expenses. The System may determine to have a portion of its portfolio managed by the Administration of the System.

b) "Manager Investment Discretion" - The investment managers under contract, or who manage the applicable trust or partnership in which the System participates, shall have full discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document, applicable federal and state statutes and regulations, and the executed contracts.

II. C. GENERAL INVESTMENT POLICIES (continued)

3) RELATIONSHIP POLICIES (continued):

c) "Manager Brokerage Discretion" - The investment managers under contract to the System shall have discretion to establish and execute through accounts with one or more securities broker/dealer as the managers may select. The investment managers will attempt to obtain the "best available price and most favorable execution" with respect to portfolio transactions, unless such standard is not applicable in the applicable markets (foreign markets). At the direction of the System, selected portions of the manager's transactions may be directed to specific brokers by the System's Administration for the purpose of recapturing commissions for the System.

d) "Manager Evaluation" - The external investment managers under contract with the System will meet with the administration and/or the Board of Trustees for the purpose of reviewing the investment activities of the individual portfolio, its performance under the contract, the investment strategy which governs its management and the market place in which it exists. The external investment managers are expected to meet periodically with the Administration at the Administration's request. Such meetings may be conducted at the offices of the investment firms.

e) "Short Term Investments" - Cash allocated for investment by the investment management firms is managed in accordance with the guidelines established in the contractual agreement with each firm. Said guidelines stipulate that the firms shall invest their cash primarily in the STIF account of the System's custodial bank. Due to the fluid nature of the capital markets, cash allocation decisions shall be made by the Administration of the System consistent with the Board of Trustees asset allocation policy.

II. C. GENERAL INVESTMENT POLICIES (continued)

3) RELATIONSHIP POLICIES (continued):

f) "Investment Consultants" - The System may utilize the services of investment consultants for the purpose of performance review, asset allocation studies, manager selection screening and topical studies. The comments and recommendations of the consultant(s) will be considered in conjunction with other available information for the purpose of making an informed and prudent decision. The selection of the consultant(s) is accomplished through a Request for Proposal (RFP) process. Each consultant shall function under a formal contract that delineates its responsibilities.

g) "Custodial Bank" - The investment assets of the System shall be held in a custody/record keeping account in a master custody bank and in the international sub-custodian banks under contract to the custodian bank. The selection of the Custodial Bank is accomplished through a Request for Proposal (RFP) process (see 3-h below). The Custodial Bank shall function under a formal contract that delineates its responsibilities. The System authorizes the execution of a "Security Lending Program" which will be performed by the Custody Bank, under contract to the System.

h) "Selection and Retention" - The System will normally utilize a competitive Request for Proposal (RFP) or Request for Information (RFI) process to select investment managers, consultants and the custodian bank. The System's investment consultant shall evaluate the responses to the RFP or RFI and shall identify the top candidate firms for consideration by the retirement System. The firms identified by the investment consultant will be evaluated by the administration of the System. Upon completion of the evaluation, the top candidate firms will be interviewed by the System with the participation of the consultant. Upon completion of the process, a recommendation will be made to the Board of Trustees. Upon approval of the Board of Trustees the System shall establish a contract or will participate in a partnership or trust managed by the selected firm, subject to legal review and negotiation of terms and conditions.

The contracts established on behalf of the System shall provide for an ongoing relationship with the System and will establish definite service requirements for the firm. The contract with the firm will provide for the termination of the relationship at the System's discretion. Action to terminate a relationship with a firm will be based upon the firm's performance under the contract and may take into account all relevant information concerning the firm..

II. C. GENERAL INVESTMENT POLICIES (continued)

4) ADMINISTRATIVE POLICIES

a) "Proxy Voting" - Voting rights of the stocks of American corporations will be exercised by the System's Administration or, at its direction by selected managers, in the best interest of the System and in accordance with the applicable statutes. The custodial bank will forward all proxies to the Administration of the System or to the designated Manager. The Administration or the Managers will execute the voting of the proxies in accordance with the "prudent person" standard delineated in Iowa Code Chapter 97B. It is the general policy of the System to vote its shares against measures that would hinder or preclude the acquisition or takeover of a corporation or company where a takeover or acquisition may be beneficial to the long-term earnings of the fund. Additionally, it is the general policy of the System to abstain from voting its shares on social issues, except where the voting of said proxy may serve to further the safety of the membership of the System, if consistent with the execution of the System's fiduciary responsibility. Issues arising in the proxy process may include:

- 1) Election of directors, including the number and terms of office, attendance and the number of meetings held.
- 2) Selection and ratification of auditors.
- 3) Stock splits, dividend and fractional share issues.
- 4) Application for listing of securities.
- 5) Corporate name changes.
- 6) Remuneration of management, directors and employees, including ratification of employee stock option plans.
- 7) Employment issues.
- 8) Cumulative voting issues.
- 9) Fees paid to auditors or consultants.
- 10) Date or location of annual meetings.
- 11) Contributions to charities or educational institutions.
- 12) All other items which are not expected to have a material adverse effect on the price of the security or which would not substantially affect the rights or privileges of the security.
- 13) Acquisitions, mergers and divestitures.
- 14) Significant changes in the company's articles of incorporation or by-laws, such as anti-takeover provisions, "poison pills" or "rights" issues.
- 15) Increases in the number of authorized shares.
- 16) Business abroad.

II. C. GENERAL INVESTMENT POLICIES (continued)

4) ADMINISTRATIVE POLICIES (continued)

b) "Education and Due Diligence" - To maintain and strengthen the investment management of the System, the members of the Board of Trustees and/or the Administration may, when appropriate:

- 1) Participate in conferences/seminars related to the investment activities of public and private institutional investors and participate in the meetings of organizations of which the System is a member,
- 2) Meet periodically with the System's investment managers at the home office of each firm to perform a review and to clarify investment or administrative issues related to the management of the portfolio,
- 3) Participate in the investors meetings conducted by the various managers of the System's assets, and
- 4) Conduct due diligence visits to ascertain the acceptability of a firm or firms under consideration for management of the System's assets.

c) "Organizations" - To maintain and strengthen the investment management of the System, the retirement System shall join national organizations related to institutional management, finance, and education.

III. RESPONSIBILITIES

A. BOARD OF TRUSTEES

The Board of Trustees acknowledge their responsibility as fiduciaries of the System. In the management and administration of the invested assets (the “Funds”) that comprise the System, the Board of Trustees strives to act prudently and for the best long-term interest of the System and the membership.

The Board will periodically review the progress of the System in achieving its investment objectives, on the compliance with the policies and guidelines as outlined in this Statement, and on other matters, as appropriate. The Board of Trustees shall, as an Investment Committee of the whole, or periodically through an AD-HOC Investment Committee appointed to represent the Board, perform the following:

1. Ensure that the contributions to the System and the proceeds from the investments are used in accordance with the objectives of the System.
2. Evaluate and select an independent investment consultant, if deemed necessary, to assist the Board of Trustees in forming investment objectives and policies, allocating assets, selecting investment vehicles and Managers, monitoring performance, and considering other appropriate issues as they may occur.
3. Develop investment objectives, guidelines and performance standards, which are consistent with the risk, return, and policy parameters of each investment component.
4. Evaluate and select Investment Managers, pooled funds, mutual funds, or other appropriate investment vehicles for each investment component of the System's assets.
5. Communicate the investment objectives, guidelines and standards (including any material changes that may occur) to the Investment Managers or responsible representatives of the selected investment alternatives of the Funds.
6. Review and evaluate results of each investment component in context with established standards of performance.
7. Take or direct the taking of appropriate action as deemed prudent and appropriate if investment results are below expectations or if prevailing conditions deem to warrant.
8. Ensure the compliance with the provisions and reporting requirements of pertinent federal, state, and local regulations and rulings.
9. Oversee the allocation of the State, City and membership contributions.

III. RESPONSIBILITIES - (continued)

B. INVESTMENT CONSULTANT

The Investment Consultant(s), in recognition of their role as a fiduciary of the System, shall perform the following:

1. Support the development of the "Statement of Investment Policies and Objectives" which identifies the various policy issues affecting the System's investment of assets.
2. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards, based upon material and sustained changes in the capital markets.
3. Make recommendations, with supporting materials, as to the appropriate portfolio weights among the various major asset classes (stocks, bonds, cash) within the Funds.
4. Assist the Board of Trustees in the conduct of manager selections by:
 - a) Identifying and screening candidates for appropriate portfolio and organizational characteristics;
 - b) Performance of due diligence reviews and evaluations;
 - c) Quantifying of the trade-off between expected returns and risks among various investment alternatives; and
 - d) Functioning as an information-gathering agent.

III. RESPONSIBILITIES - (continued)

B. INVESTMENT CONSULTANT (continued)

5. Perform a quarterly performance evaluation of the System's portfolios and their components and provide a written report to the Board of Trustees following the end of each quarter. The written report will cover five basic areas:

- a. Returns - Total time-weighted rates of returns.
- b. Comparisons - Returns will be compared to appropriate benchmark indices and a universe of similar funds.
- c. Diagnostics - Measurement of risk-adjusted performance, analysis of risks, style characteristics, and return attribution.
- d. Compliance - Manager's compliance with the requirements of the individual contracts.
- e. Risk profile of the System's portfolio and that of its individual components.

6. Participate in periodic review meetings with the Board of Trustees and/or the administration to evaluate and assess the performance and quality of the individual managers. The purpose of such meetings will be to provide:

- a. A review and re-appraisal of the investment program.
- b. A commentary on investment results in light of the appropriate standards of performance.
- c. A discussion of any key policy issues.
- d. Any other matters as deemed appropriate by the Board of Trustees or the administration.

III. RESPONSIBILITIES - (continued)

C. ADMINISTRATION

The Administration shall perform the following on behalf of the Board of Trustees:

1. Coordinate the development of the "Statement of Investment Policies and Objectives" which identifies the various policy issues affecting the System's investment of assets.
2. Make recommendations concerning changes in the objectives, or guidelines, or standards, based upon material and sustained changes in the capital markets.
3. Administer the various policies delineated by this document to include the development of the asset allocation policy. Execute decisions made by the Board of Trustees concerning the investment program.
4. Participate in periodic review meetings with the Board of Trustees to evaluate and assess the performance and quality of the individual managers. Periodically, meet with individual investment managers, the custodian bank, and consultants to assess the quality of the services being provided to the System.
5. Establish contracts with the support of the System's legal counsel with investment managers, consultants and the custodian bank.
6. Vote the shares of the System's equity assets through the proxy process in consideration of its economic interests or direct the managers to vote the proxies of the System.
7. Upon authorization of the Board of Trustees and the establishment of specific guidelines, manage a portion of the System's assets.

III. RESPONSIBILITIES - (continued)

D. INVESTMENT MANAGERS

The Investment Managers, in recognition of their role as fiduciaries of the System, shall assume the following responsibilities as they pertain to:

1. Legally commit to invest the System's funds in accordance with the objectives, guidelines and standards delineated in the contractual document established between the System and the investment firm.
2. Exercise full discretionary authority as to all buy, hold, and sell decisions for each asset under the firm's management, subject to the requirements of the contract.
3. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards, contained within the contract, based upon material and sustained changes in the capital markets.
4. Produce a statement for the System at the end of each month describing the portfolio asset class weights, individual security positions showing both cost and market value, and all principal cash transactions, including all buys and sells in sufficient descriptive detail. For commingled assets, this statement should show unit position and unit value.

Submit reports as requested by the system (quarterly, monthly, weekly ad-hoc) on the management of the System's assets, to include performance review.

5. At the request of the System, participate in periodic review meetings with any or all of the following: the Board of Trustees, the System's administration, or the System's Consultant. The subjects to be discussed shall include:
 - a) A review of the activities of the manager pertaining to the individual portfolio and commentary upon the specifics of the investment strategy.
 - b) A commentary on investment results in light of the appropriate standards of performance.

III. RESPONSIBILITIES - (continued)

D. INVESTMENT MANAGERS - (continued)

- c) A synopsis of the key investment decisions made by the Manager, the underlying rationale, and how those decisions could affect future results.
 - d) A discussion of the Manager's outlook, what specific investment decisions the outlook may trigger and how these decisions could affect future results.
6. Provide frequent and open communication with the System on all material matters pertaining to investment policies and the management of the System's assets. In particular, the Investment Managers will:
- a) Provide notice of any material changes in their investment outlook, strategy, and portfolio structure.
 - b) Notify the System of material changes in the investment firm's ownership, organizational structure, financial condition, senior staffing and management.
 - c) Provide a copy to the System of each Manager's periodic S.E.C. Form ADV filing and of any other documents required by the contract with the System.
7. The Investment Managers will use their best judgment to obtain brokerage services based upon consideration of the objective of the best execution of trades and the lowest cost to the System. The System may direct the Investment Manager to direct a reasonable amount of brokerage fees to particular brokerage firms in payment for certain third-party services as may be determined to be needed by the System.
8. The Investment Managers shall, upon request from the Administration, provide information concerning individual proxy issues. Issues arising in the proxy process may include both routine and non-routine matters.

III. RESPONSIBILITIES - (continued)

E. CUSTODIAN BANK

The Custodian Bank, in recognition of its role as a fiduciary of the System, shall assume the following responsibilities as they pertain to:

1. Hold all System deposits in the appropriate accounts, and provide highly secure storage of stock certificates and bonds, such that there is essentially no risk of loss due to theft, fire, or accident. Maintain appropriate records on computer files (data bases) that are secure and free from inappropriate manipulation.
2. Arrange for timely and business-like settlement of all purchases and sales made for the System. Transactions shall be on a "delivery versus payment" basis unless dictated by the requirements of the markets in which the transactions are conducted. The Bank shall act to insure the safety of the assets in the markets in which the transactions are conducted.
3. Provide for receipt and prompt crediting of all dividend and interest payments received as a result of the System's holdings. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct late or insufficient payments, including reimbursement of interest lost due to tardiness or shortfall.
4. Sweep excess cash daily into an interest bearing account featuring a high degree of safety of principal and liquidity.
5. Provide monthly reports showing individual asset holdings with sufficient descriptive detail to include units, unit price, cost, market value, CUSIP number (where available), and any other information requested by the System. Principal cash transactions, including dividends and interest received, deposits and withdrawals, securities purchased, sold, and matured, and fee payments will also be listed.
6. At the direction of the (Executive Director) or their appointed representative, transfer funds into and out of specified accounts.
7. The Custodian Bank will promptly forward all proxy materials received to the Administration of the System or at the Administration's direction, to the appropriate investment manager for execution.

IV. ASSET ALLOCATION

A. ASSET ALLOCATION

The asset allocation policy shall be as follows:

“ASSET ALLOCATION POLICY”		
US EQUITY	30.0%	
NON-US EQUITY	20.0%	
REAL ESTATE	10.0%	
ALTERNATIVE INVESTMENTS	10.0%	
TOTAL EQUITY ORIENTED INVESTMENTS		70.0%
US FIXED INCOME	10.0%	
TACTICAL FIXED INCOME	20.0%	
CASH	0.0%	
TOTAL DEBT ORIENTED INVESTMENTS		30.0%
TOTAL PLAN PERFORMANCE EXPECTATION %	8.00%*	
STANDARD DEVIATION (RISK) %	10.40%	

[* Allocation, performance expectation and risk projection based upon Summit’s 2005 assumptions.]

“ALLOCATION POLICY DETAIL” COMPONENTS OF PORTFOLIO

	CORE	ALTERNATIVE	STRATEGIC
U.S. EQUITY TARGET	37.50%		37.50%
INTERNATIONAL EQUITY	25.00%		25.00%
REAL ESTATE		50.00%	
ALTERNATIVE EQUITY		50.00%	
COMPONENT EQUITY TARGET	62.50%	100.00%	62.50%
FIXED INCOME: CORE	12.50%		
FIXED INCOME: CORE PLUS/TACTICAL	12.50%		
TACTICAL FIXED INCOME	12.50%		
UNIVERSAL FIXED INCOME			37.50%
CASH	0.00%		0.00%
COMPONENT DEBT TARGET	37.50%		37.50%

CAVEATS:

1) In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the debt or equity category. Due to the fluctuation of market values, positioning within a range shall constitute compliance with the policy. The acceptable range is identified for each major component of assets

2) A review of the allocation policy shall occur periodically to allow the Board of Trustees to consider the affect of any changes in market conditions or of the expectations for the retirement system.

IV. ASSET ALLOCATION - (continued)

B. PORTFOLIO DEFINITIONS

The individual portfolios are established through contracts with the investment management firms selected to manage the assets of the System. The definition of each portfolio is described in Exhibit A to this document. Refinements and additions to the portfolios and to the applicable definitions will be performed as the Board of Trustees reviews the investment program periodically.

C. PORTFOLIO ADJUSTMENTS

The System will allocate cash flows to establish the portfolios consistent with the target allocation for each portfolio type. Periodically, the Board of Trustees will examine the weights of each portfolio relative to the targets and to the ranges established by the Asset Allocation policy. The System may act to adjust the size of individual portfolios through the withdrawal of funds from individual portfolios and the reallocation to under-weighted portfolios or may rely upon the commitment of future cash flow to increase the size of individual portfolios.

V. ASSET GUIDELINES

The assets to be held in each portfolio shall be delineated in the contract to be established with the individual investment management firm. The requirements for the individual managers shall be consistent with the general policies described, as follows:

A. STOCKS AND BONDS (DOMESTIC, INTERNATIONAL & EMERGING MARKETS)

The stock and bond holdings of the System may include:

- Securities issued by and the obligations of or guaranteed by the United States of America or U.S. government sponsored enterprises or by the Dominion of Canada or any province thereof, financial futures and options;
- Bonds issued by the State of Iowa or its political subdivisions;
- Common stock, American Depository Receipts, corporate bonds or other evidences of indebtedness issued under the laws of the Dominion of Canada or any province thereof;
- Common stock, bonds or other evidences of indebtedness issued under the laws of selected foreign countries or their political subdivisions;
- Debt instruments issued by multinational organizations, on behalf of selected nations or groups of nations, such as Brady Bonds, whether in U.S. dollars or foreign currencies;
- Mutual funds or commingled funds, which are, comprised of stocks and or debt instruments, including those which hold positions in emerging markets, whether in U.S. dollars or foreign currencies;
- Derivative instruments, such as futures and options, which shall be utilized as an alternative to a stock or bond position, as specified.

The stock, equity, bond, and debt holdings of the System are subject to the Iowa Sudan Divestment Act of 2007, as enacted by the 2007 Iowa General Assembly. Holdings of the System are subject to the non-investment and divestment provisions of the Act.

B. OTHER ASSET CLASSES

The currency position of the system shall include the currency of a group of selected nations, which have well established and stable economic and political structures. Currency positions will be only taken in countries or in multinational currencies (for examples, Euros) in which the System has determined to invest the System's assets. The currency assets of the System shall be represented within the individual portfolios of the investment managers, which have mandates, which include international bond or stocks. The benchmark against which these managers run the portfolios shall include a zero percent hedged position to the U. S. dollar for the international portions of the mandates.

V. ASSET GUIDELINES - (continued)

C. DERIVATIVE INSTRUMENTS

Derivative instruments, such as futures and options, may be utilized in selected portfolio for the following purposes:

- 1) As an alternative to maintaining a selected asset position,
- 2) To maintain the duration of securities in a portfolio,
- 3) To gain exposure in a time of dollar strength to a foreign bond market with minimal exposure to the currency of the country,
- 4) To hedge or otherwise protect existing or anticipated portfolio positions,
- 5) To establish and maintain the currency positions for the currency overlay portfolio and for the individual currency activities of the individual portfolios, and
- 6) Not to speculate or leverage (gear-up) the portfolio.

Derivative instruments are generally defined as contracts whose value depends on ("derives" from) the value of an underlying asset, reference rate, or index. Derivative instruments include both of the following:

- a) "Over the counter" (OTC) derivatives: privately negotiated contracts provided directly by dealers to end-users; which include swaps, futures and options, based upon interest rates, currencies, equities, and commodities; and
- b) Standardized contracts sold on exchanges: which include futures and options.

D. REAL ESTATE

The real estate positions of the System may include domestic or international real estate investments in individual properties or groups of properties, through one or more of the following: direct purchase or mortgage of individual properties, participation in a commingled fund (open-ended or closed-ended) or in a trust or a partnership, which has positions in one or more properties.

The real estate positions of the System may include investment in securitized real estate, via publicly traded or privately held Real Estate Investment Trusts (REITS).

VI. INVESTMENT OBJECTIVE & PERFORMANCE STANDARDS

The primary objective of the System is to pay benefits when and as they come due. The assets of the System will be invested to achieve growth of capital through appreciation of securities and through the accumulation and reinvestment of dividend and interest income. The performance standards for the System's portfolios are developed consistent with those commonly found to be applicable to large institutional investors of a similar nature to the System.

A. TIME HORIZON

Progress of the System, its Funds and their components against their return objectives will typically be measured over a full market cycle. Market cycles may differ markedly in length, and there is no standardized measure for a market cycle's term. For the System's purposes, a full market cycle encompasses both a down leg and an up leg, in either order. The up or down portions each will be of at least two consecutive quarters in length. Thus, a full market cycle may be as short as one year, though generally market cycles are expected to last from three to five years.

The above-described concept does not preempt the periodic review and evaluation of the activities and performance of individual investment managers over a period of time that is of longer or shorter duration than a market cycle. The Board of Trustees reserves to itself the right to take action relative to individual managers or to the portfolio as a whole without regard to the above described concept.

B. RETURN OBJECTIVE

Over a full Market Cycle, the assets of the System will be invested in a diversified manner which has as its performance objective a return of 8.00% with an annualized rate of inflation of 2.25% and a Standard Deviation of 10.40%

C. STATISTICAL COMPARISON

The total returns on each asset class, equity and fixed income manager, and the total investment portfolios will be compared to the appropriate index for the market in which they invest and/or to the interest rate assumption of the retirement System.

EXHIBIT A - DEFINITIONS & DESCRIPTIONS OF PORTFOLIOS

The System shall utilize both index fund management and active portfolio management for investment of the portfolio:

"INDEX MANAGEMENT":

A series of portfolios that are intended to emulate the performance of specific indices, which are representative of all or a portion of individual capital market or markets, the portfolios will be fully invested except during periods of re-balancing.

"ACTIVE MANAGEMENT"

A portfolio that is actively managed by individual investment management firms with the intent of achieving performance, which surpasses that of the capital market(s) in which it is invested, as measured by a relevant market index or a composite benchmark.

"PORTFOLIO DESCRIPTIONS"

CORE PORTFOLIO

A. DOMESTIC INDEX STOCK FUND ("INDEX MANAGEMENT")

STATE STREET GLOBAL ADVISORS (SSGA)

- Russell 1000 (stock) Index Fund

B. DOMESTIC ENHANCED INDEX FUND

INTECH, (Palm Beach FL./Princeton, NJ)

A portfolio of U.S. large cap stocks, with an investment process that is strictly quantitative in nature, which removes all sentiment from security selection. The firm applies mathematical principles to the universe of stocks in the benchmark to identify the higher volatility stocks and determine the optimal proportion for each stock. The goal is to construct a portfolio that is more "efficient" than the benchmark while remaining neutral to the benchmark.

C. DOMESTIC SHORT ENABLED (130/30) STRATEGY PORTFOLIO

JP MORGAN (New York, NY)

A portfolio comprised of a blend of traditional long-only equity positions with an overlay of short positions in unattractive stocks. The overlay is established at a fixed portion of the portfolio's value with the investment manager having the discretion to increase/decrease the overlay within a range around the fixed target. The strategies are designed to provide net market exposure of 100% and have a target beta of one.

D. DOMESTIC SMALL CAPITALIZATION EQUITY PORTFOLIO

DIMENSIONAL FUND ADVISORS (Santa Monica, CA.)

A diversified portfolio comprised of small capitalization stocks and cash, which is intended to outperform the performance of an index, which represents the small companies within the U.S. stock market.

E. ACTIVELY MANAGED INTERNATIONAL EQUITY PORTFOLIO

1. BAILLIE GIFFORD OVERSEAS, LTD. (Edinburgh, Scotland)

2. DELAWARE INTERNATIONAL ADVISERS, LTD (London, England)

A diversified portfolio comprised of equity and cash, which is invested in stocks listed on established international stock markets with the intent to out-perform a broad-based international equity index . The portfolio shall also invest in emerging markets.

F. FIXED INCOME (CORE)

ABERDEEN ASSET MANAGEMENT INC. (Philadelphia, PA)

A diversified fixed income portfolio that includes U.S. dollar denominated investment grade securities. The benchmark for the portfolio is the Lehman Aggregate Index. Eligible investments include but are not limited to the following security types: Treasury, government agency, mortgage-backed, corporate, asset-backed, preferred, municipal, supranational, quasi government, and sovereign issues. Securities that are rated below investment grade rating at the time of purchase are not permitted. Investment grade securities are defined as those securities that have a rating of at least Baa3/BBB- by a nationally recognized statistical ratings agency or when no ratings exist are deemed to be of similar quality by the manager. Derivative instruments are permitted for hedging and efficient portfolio management.

G. FIXED INCOME (CORE PLUS/TACTICAL)

JULIUS BAER (New York)

A diversified fixed income portfolio which contains securities issued by and the obligations of or guaranteed by the United States of America or U.S. government sponsored enterprises or by the Dominion of Canada or any province thereof, financial futures and options, and of corporate bonds or other evidences of indebtedness issued under the laws of the United States or its political subdivisions. The portfolio also invests tactically in the securities issued by and obligations guaranteed by developed foreign countries. Securities issued by emerging market or developing market countries shall not be included in the portfolio. Securities acquired for the portfolio shall be of investment grade as rated by a recognized rating agency

H. TACTICAL FIXED INCOME (ABSOLUTE RETURN) PORTFOLIO

ALLIANCE BERNSTEIN (New York, NY)

A fixed income portfolio in which the manager is expected to implement a “best ideas” portfolio, i.e. not a bench-mark sensitive approach to portfolio construction. The portfolio will include, but may not be limited to investments in the following markets: domestic fixed income, high yield, emerging market debt, global bonds, non-dollar tips, global tips, and bank loans. The benchmark for the portfolio will be an absolute return target, (such as Libor +300bp) rather than measuring a return relative to an investable index.

ALTERNATIVE PORTFOLIO - See addendum one

I. REAL ESTATE PORTFOLIO

“DIVERSIFIED CORE/CORE PLUS PORTFOLIO”

(Target Allocation: 45% of the Real Estate Program
Range: 30% minimum to 60% maximum)

1. *J.P. MORGAN INVESTMENT MANAGEMENT, INC. (New York)*
2. *PRINCIPAL REAL ESTATE (Des Moines)*
3. *SENTINEL REALTY ADVISORS (New York)*

A diversified portfolio comprised of investments in non-leveraged and leveraged real estate properties, either directly through individual ownership, or through participation in one or more commingled real estate property funds

“VALUE ADDED/OPPORTUNISTIC PORTFOLIO”

(Target Allocation: 45% of the Real Estate Program
Range: 30% minimum to 60% maximum)

1. *FIDELITY MANAGEMENT TRUST COMPANY (New York)*
2. *HINES CAPITAL MARKETS (Houston)*
3. *TA ASSOCIATES (Boston)*
4. *APOLLO REALTY (New York)*
5. *J.P. MORGAN REAL ESTATE (New York)*

A portfolio comprised of investments held in a partnership, trust, or fund, which acquires, manages and disposes of non-leveraged and leveraged real estate properties. The Value Added/Oppportunistic portfolio will invest in one or more funds, partnerships, or trusts, which invest in an individual sector or in several sectors of the direct real estate market. Real estate sectors may include: apartments, industrial, retail, commercial office, turn-around opportunities, as well as others not identified.

“REAL ESTATE INVESTMENT TRUST (REIT) PORTFOLIO”

(Target Allocation: 10% of the Real Estate Program
Range: 0% minimum to 20% maximum)

J.P. MORGAN REAL ESTATE (New York)

A portfolio comprised of investments held in a commingled fund and/or in a separate account which acquires, manages, and disposes of publicly traded REIT securities.

J. ALTERNATIVE INVESTMENTS IN PRIVATE EQUITY & DEBT

1. *ADAM STREET PARTNERS, LLC (Chicago)*

2. *HARBOURVEST PARTNERS (Boston)*

3. *SIGULER GUFF (New York)*

A portfolio comprised of investment in a “fund of funds” which acquires positions in various venture capital funds, buyout funds, opportunistic funds, secondary opportunities, and direct investments. Investments made by the individual funds shall be via equity ownership and/or privately placed debt.

ADDENDUM ONE: “ALTERNATIVE PROGRAM - INVESTMENT ALLOCATION”

The Board of Trustees has established a targeted commitment to alternative asset classes: 10% to Real Estate and 10% to Private Equity. Conditions exist which make it difficult to achieve the fully invested market commitments:

- a) The nature of the investment vehicles used to implement the strategy, require an extended period of time (3 to 6 years) before the commitments are fully drawn.
- b) During the investment period, liquidation of earlier investments may occur within the partnerships, which causes a return of dollars from the earlier draw-downs.

To address this problem, the Board adopts the following policy for the placement of the committed funds, prior to the funds being drawn by the individual managers.

Concept for Real Estate

To achieve the real estate target, the System may invest the funds committed but not yet drawn by the separate real estate partnerships into either of two funds: a REIT portfolio managed by JP Morgan or a Core real estate fund managed by Principal Financial. This approach allows the System to have a ten percent allocation to the real estate markets, through the combination of active direct real estate investments and the positions in these two portfolios. Dollars not yet called by the real estate managers are invested via the separate account until they are called: 1) The separate REIT account is a portfolio of securities that replicates, as closely as possible, the returns and characteristics of the Wilshire REIT Index, and 2) Liquidity is available from each of these two portfolios on a daily basis.

Concept for Private Equity

To establish additional equity funding as a proxy for private equity an allocation has been made to a Global Equity Index Portfolio by SSGA. This approach allows the System to have a ten percent commitment, through the combination of the private equity partnerships and the index portfolio. Dollars not yet called by the private equity partnerships are placed in the index portfolio until they are drawn down by the investment managers: 1) The portfolio of securities is designed to replicate the characteristics of the global equity markets, and 2) Liquidity is available on a daily basis.

STRATEGIC PORTFOLIO

K. STRATEGIC (GLOBAL BALANCED) PORTFOLIOS

(U.S. Equity, International Equity, Fixed Income, Emerging Market Equity)

1. *MORGAN STANLEY DEAN WITTER ASSET MANAGEMENT (New York)*
2. *J.P. MORGAN FLEMING INVESTMENT MANAGEMENT, INC. (New York)*
3. *GRANTHAM, MAYO, VAN OTTERLOO AND CO. LLC (Boston)*

A diversified portfolio comprised of fixed income, equity, emerging market equity and debt, and cash which is invested in securities of global markets with the intent to out-perform a composite index which is weighted sixty-two and one-half percent to equity and thirty-seven and one-half percent to fixed income.

TRANSITION ASSETS

CUSTODIAL BANK - MELLON TRUST (Boston)

Cash and Short Term Investments - Effective April 2005, the cash portion of the System's assets will be invested either in a STIF product available from the custodial bank (Mellon Trust) or in an enhanced cash fund which is managed by Standish Mellon, a subsidiary of Mellon Trust.