

MFPRSI

MUNICIPAL FIRE & POLICE
RETIREMENT SYSTEM OF IOWA

Investment Policy and Objectives

Calendar Year 2013

Table of Contents

Introduction & Statement of Purpose	3
Investment Goals & Strategic Assumptions	4
General Investment Policies	6
	10 Responsibilities
	14 Asset Allocation
Asset Guidelines	15
Investment Objective & Performance Standards	17
Portfolio Descriptions	19

Introduction

Municipal Fire and Police Retirement System of Iowa is a statewide retirement system for firefighters 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, MFPRSI 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 MFPRSI members. Vesting occurs when members have obtained four years of membership service or attain the age of 55 while performing membership service with MFPRSI.

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

Statement of Purpose

Investment Policy and Objectives is intended to provide a guideline for MFPRSI's investment portfolio, which, in turn, is intended to provide benefits to the members of MFPRSI by generating a total rate of return on investments consistent with risks taken within a carefully monitored and implemented risk framework.

In addition, *Investment Policy and Objectives* intends to provide the following:

- Delineate the investment related responsibilities of the Board of Trustees (the "Trustees"), MFPRSI's administration (the "administration"), and the retirement system's investment service providers (the "investment managers").
- Establish formal yet flexible investment guidelines which incorporate prudent asset allocation and realistic total return goals.
- Provide a framework for ongoing communication between the Trustees, administration, and investment managers.
- Create standards of investment performance that are reasonable and consistent with the goals of the 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 Trustees to insure the relevance of its contents to investment market conditions and the retirement system's needs.

Investment Goals & Strategic Assumptions

Investment Goals - The investment activities of MFPRSI are designed to meet the ongoing funding requirements of the benefit plan with which it is charged under Iowa Code Chapter 411. The comprehensive goals of the investment program are as follows:

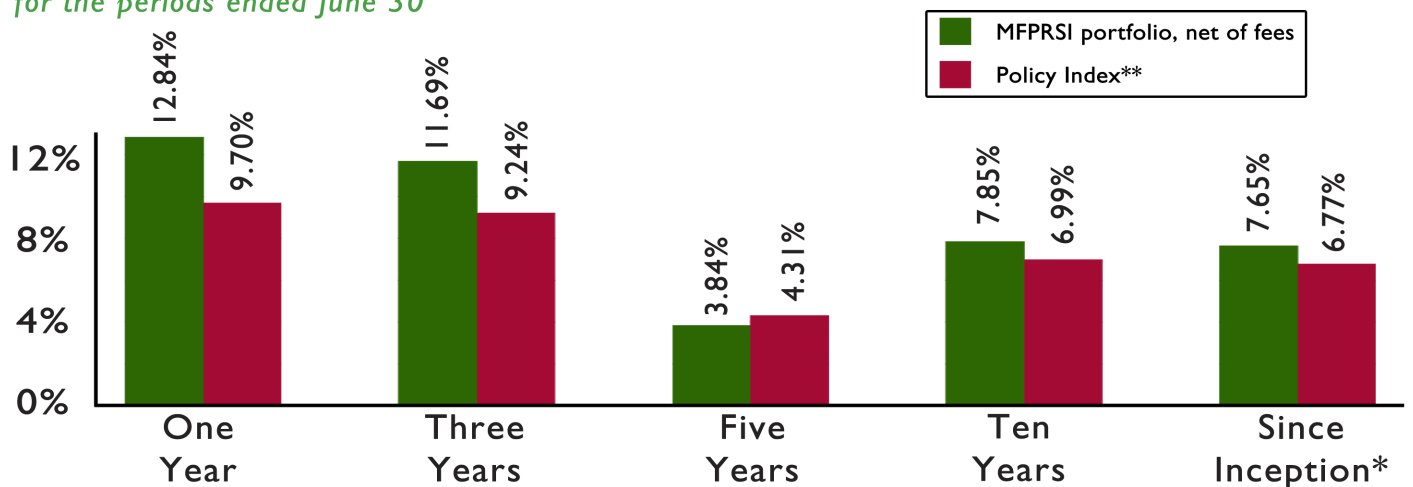
1. Meet the ongoing financial needs of the benefit plan as defined by MFPRSI's actuary consistent with conservative actuarial policies.
2. Create a well-diversified portfolio of assets that is anticipated to meet or exceed the retirement system's long-term assumed rate of return while taking an acceptable level of risk exposure.

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

- Implement the requirements of the program as delineated within *Investment Policy and Objectives*.
- Provide an investment program which will serve the best interests of its members and beneficiaries and reflect the financial capabilities of their employers.
- Provide a return on investment that, when combined with the periodic contributions of the membership, their employers, and the State of Iowa will meet the funding needs of the benefit plans.
- Meet or exceed the actuarial interest rate assumption as established by the Trustees over extended periods.
- Meet or surpass the performance expectations established for the portfolios as described in this document.
- Establish relationships with investment managers and investment consultants who further the goals of MFPRSI's financial purposes and provide for the continuing refinement of a comprehensive investment program.

Investment Performance Summary

for the periods ended June 30



*Inception Date: January 1, 1992

**Policy index: 60% MSCI ACWI IMI Index; 40% Bar Cap Aggregate Index

Obtaining specific performance goals in individual portfolios and in the various investment markets is contingent upon prevailing economic conditions and the performance of the capital markets. Performance over specific periods will vary.

Strategic Assumptions - The following basic assumptions concerning the investment markets are the foundation for the development of MFPRSI's investment policy.

- 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; public equity and private markets for long-term appreciation of assets above inflation; and, real assets for diversification of risk.
- It is extremely difficult to “time the stock market” knowing when stock markets will experience positive growth and negative growth. Therefore, cash should be kept to a minimum and target asset allocations should be maintained within reasonable bands.
- Diversification into global markets by investment style and across the market capitalization spectrum is essential to generate return, manage risk, and maintain exposure to the capital markets opportunity set.
- The role of active portfolio management is to add incremental value net of fees incurred.
- Diversification of the plan may include consideration and potential implementation of portfolios involving additional asset classes (e.g., real assets, emerging markets, master limited partnerships, etc.)

General Investment Policies

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

Asset Allocation Policies

MFPRSI will adopt and execute an asset allocation policy predicated on a number of factors that will include, but is not necessarily limited to the following:

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

The policy will identify the classes of assets MFPRSI will utilize as well as the percentages they are intended to represent of the total fund. The policy is designed to provide asset diversification in an effort to enhance the investment return 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. The *Asset Allocation* section, starting on page 14 of this report, delineates the asset allocation policy as adopted by the Trustees.

Operational Expectations – MFPRSI will invest its resources in conformity with the asset allocation policy as shown on page 14 of this report. MFPRSI expects that compliance with the specific allocation targets will, due to the fluctuation of the capital markets, be difficult to exactly obtain; therefore, MFPRSI 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.

Performance Policies

General Performance Expectations - The performance of MFPRSI's investment program will periodically be evaluated by the 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 *Investment Objective & Performance Standards* starting on page 17 of this report for specific performance expectations.

Relationship Policies

Investment Manager Policies - In order to achieve performance results consistent with diversification of its assets, MFPRSI selects and utilizes external investment managers to invest portions of its assets. The selection of investment managers is accomplished as described in the *Selection and Retention* section on page 8 of this report. Investment managers function either under a formal contract that delineates their responsibilities and provides an appropriate performance expectation or under a formal trust or partnership agreement with MFPRSI. When appropriate, MFPRSI may compensate the 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. MFPRSI may determine to have a portion of its portfolio managed by its administration.

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

Manager Brokerage Discretion - The investment managers under contract to MFPRSI shall have discretion to establish and execute through accounts with one or more securities broker/dealer(s) they deem appropriate. The investment managers will attempt to obtain the “best available price and most favorable execution” standard of care with respect to portfolio transactions unless such standard is not applicable in the relevant markets (e.g., private and/or foreign markets).

Manager Evaluation - The investment managers under contract with MFPRSI will meet with the administration and/or the Trustees for the purpose of reviewing the investment activities, portfolio performance, investment strategy, and the relevant market(s) in which it operates. The investment managers are expected to meet periodically with the administration at its request. Such meetings may be conducted at the offices of the investment firms.

Short Term Investments - Cash allocated for investment by the investment managers is managed in accordance with the guidelines established in the contractual agreement with each investment manager. The guidelines with each investment manager will stipulate that cash will primarily be invested in the STIF account of MFPRSI’s custodial bank. Due to the fluid nature of the capital markets, cash allocation decisions may be made by the administration consistent with the Trustees’ asset allocation policy.

Investment Consultants - MFPRSI may utilize the services of investment consultant(s) for various purposes, including performance reviews, asset allocation studies, manager selection screenings, and topical studies. The comments and recommendations of the investment consultant(s) will be considered in conjunction with other available information for the purpose of making an informed and prudent decision. Each investment consultant shall function under a formal contract that delineates its responsibilities.

Custodial Bank - The investment assets of the retirement system shall be held in a custody/record-keeping account in a master custodial bank and in the international sub-custodian banks under contract to the master custodial bank. The custodial bank shall function under a formal contract that delineates its responsibilities. MFPRSI may, at its discretion, authorize the execution of a securities lending program which may be performed by the custody bank.

Selection and Retention - At its discretion, MFPRSI will:

- a. Utilize a competitive Request for Proposal (RFP) or Request for Information (RFI) process to select investment managers and custodian bank.

or

- b. In consideration of the extensive screening process conducted by its investment consultant, request a list of the top candidate firms created by its investment consultant. Subsequent to the identification of the top candidate firms, the firms will be evaluated by the administration and MFPRSI's investment consultant. Upon completion of this evaluation the firm identified as the top candidate will be interviewed by MFPRSI with the participation of the consultant (more than one firm may be interviewed). Upon completion of the process a recommendation will be made to the Trustees. Upon approval of the Trustees, the retirement system will either establish a contract or participate in a partnership or trust managed by the selected firm subject to legal review and negotiation of terms and conditions.

MFPRSI may utilize an RFP to select investment consultant(s).

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

Administrative Policies

Proxy Voting - Voting rights of corporate stocks will be exercised by the administration or, at its direction, by designated investment managers, in the best interest of MFPRSI and in accordance with the applicable statutes. The custodial bank will forward all proxies to the administration or to the designated investment manager. The administration or the designated investment 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 MFPRSI to vote its shares against measures that would hinder or prevent 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 MFPRSI 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 retirement system if consistent with the execution of MFPRSI's fiduciary responsibility. Issues arising in the proxy process may include, but are not limited to the following:

- Election of directors, including the number and terms of office, attendance, and number of meetings held.
- Selection and ratification of auditors.
- Stock splits, dividend, and fractional share issues.
- Application for listing of securities.
- Corporate name changes.
- Remuneration of management, directors, and employees including ratification of employee stock option plans.
- Employment issues.

- Cumulative voting issues.
- Fees paid to auditors or consultants.
- Date or location of annual meetings.
- Contributions to charities or educational institutions.
- 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.
- Acquisitions, mergers, and divestitures.
- Significant changes in the company's articles of incorporation or by-laws, such as anti-takeover provisions, poison pills, or rights issues.
- Increases in the number of authorized shares.
- Business abroad.

Education and Due Diligence - To maintain and strengthen the investment management of MFPRSI, the Trustees, and/or the administration may, when appropriate:

- Participate in conferences/seminars related to the investment activities of public and private institutional investors and participate in the meetings of organizations of which MFPRSI is a member.
- Meet periodically with the MFPRSI'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.
- Participate in the investors' meetings conducted by the various investment managers of MFPRSI's assets.
- Conduct due diligence visits to assess the acceptability of an investment manager(s) under consideration for management of the retirement system's assets and maintain good faith in its current investment managers under contract.

Organizations - To maintain and strengthen the investment management of the retirement system, MFPRSI may join national organizations related to institutional management, finance, and education.

Responsibilities

Board of Trustees

The Trustees acknowledge their individual and collective responsibility as fiduciaries of the retirement system. In the management and administration of the invested assets (the “funds”) that comprise MFPRSI the Trustees strive to act prudently and for the best long-term interest of the retirement system and its membership.

The Trustees will periodically review the progress of the retirement system in achieving its investment objectives, on the compliance with the policies and guidelines as outlined in this investment policy, and on other matters as appropriate. The Trustees as a group shall, as an Investment Committee of the whole, or periodically through an ad hoc Investment Committee appointed as their representation, perform the following:

1. Ensure that the contributions to MFPRSI and the proceeds from the investments are used in accordance with its objectives.
2. Evaluate and select an independent investment consultant, if deemed necessary, to assist the Trustees in forming investment objectives and policies, allocating assets, selecting investment opportunities and investment 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, performance, and policy parameters of each investment component.
4. Evaluate and select investment managers, pooled funds, mutual funds, or other appropriate investment opportunities for each investment component of MFPRSI’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 managers of the funds.
6. Review and evaluate results of each investment component in context with established standards of performance.
7. Implement or direct appropriate action(s) 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.

Investment Consultant

The investment consultant(s), in recognition of their role as a fiduciary of MFPRSI, will perform the following:

1. Support the development of *Investment Policy and Objectives* which identifies the various policy issues affecting MFPRSI’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 (i.e., stocks, bonds, and cash) within the funds.

4. Assist the Trustees select investment managers by:
 - a. Identifying and screening candidates for appropriate portfolio and organizational characteristics.
 - b. Performing due diligence reviews and evaluations.
 - c. Quantifying the analysis between expected returns and risks among various investment alternatives.
 - d. Functioning as an information-gathering agent.
5. Perform a quarterly performance evaluation of MFPRSI's portfolios and their components and provide a written report to the Trustees following the end of each quarter. The written report will cover four 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 - The investment manager's compliance with the assigned portfolio level mandates of the individual contracts.
6. Participate in periodic review meetings with the 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 the following:
 - 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 Trustees or the administration.

Administration

The administration shall perform the following on behalf of the Trustees:

1. Coordinate the development of *Investment Policy and Objectives* which identifies the various policy issues affecting the MFPRSI's investment of assets.
2. Make recommendations concerning changes in the objectives, 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 Trustees concerning the investment program.
4. Participate in periodic review meetings with the 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 MFPRSI.
5. Establish contracts with the support of MFPRSI's legal counsel with investment managers, consultants, and the custodian bank.
6. Vote the shares of the MFPRSI's equity assets through the proxy process in consideration of its economic interests or direct the managers to vote the proxies of MFPRSI.
7. Manage a portion of the MFPRSI's assets upon authorization of the Trustees and the establishment of specific guidelines.

8. Coordinate the investment manager selection process with the investment consultant to develop a consensus recommendation to the Trustees.
9. Continually monitor the activities and operations of each investment manager to ensure the investment guidelines are followed and the assets are secure through the proper implementation of internal controls.

Investment Managers

The investment managers, in recognition of their role as fiduciaries of MFPRSI, shall assume the following responsibilities as they pertain to:

1. Legally commit to invest MFPRSI's funds in accordance with the objectives, guidelines, and standards delineated in the contractual document established between MFPRSI 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 MFPRSI 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. Reports will include a performance review and be submitted to MFPRSI as requested (e.g., quarterly, monthly, ad hoc).
5. At MFPRSI's request, participate in periodic review meetings with any or all of the following: the Trustees, the administration, or investment 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.
 - c) A synopsis of the key investment decisions made by the investment manager, the underlying rationale, and how those decisions could affect future results.
 - d) A discussion of the investment manager's outlook, including specific investment decisions the outlook may generate, and how these decisions may affect future results.
6. Provide frequent and open communication with MFPRSI on all material matters pertaining to investment policies and the management of the fund'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 MFPRSI of material changes in the investment firm's ownership, organizational structure, financial condition, senior staffing, and management.
 - c) Provide a copy to MFPRSI of each investment manager's periodic SEC Form ADV filing and of any other documents required by the contract with MFPRSI.
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 retirement system. MFPRSI 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 retirement 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.

Custodian Bank

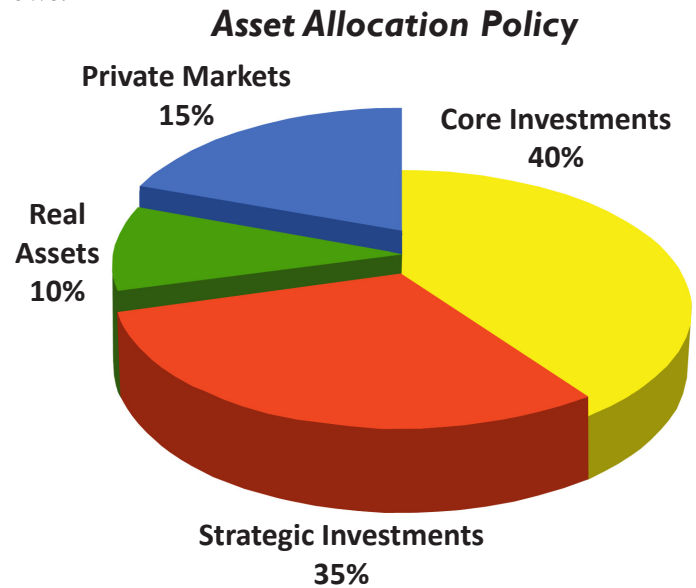
The custodian bank, in recognition of its role as MFPRSI's fiduciary, shall assume the following responsibilities:

1. Hold all MFPRSI 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 (i.e., 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 MFPRSI. Transactions shall be on a delivery versus payment basis unless dictated by the requirements of the markets in which the transactions are conducted. The custodian 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 MFPRSI's holdings. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct tardy 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 volume, unit price, cost, market value, CUSIP number (where available), and any other information requested by MFPRSI. Principal cash transactions, including dividends and interest received, deposits, withdrawals, securities purchased, sold, matured, and fee payments will also be listed.
6. At the direction of MFPRSI's Executive Director or their appointed representative, transfer funds into and from specified accounts.
7. Promptly forward all proxy materials received to the administration or, at the administration's direction, to the appropriate investment manager for execution.
8. Monitor all securities litigation affecting the retirement system and keep MFPRSI informed of all activities related to each lawsuit.

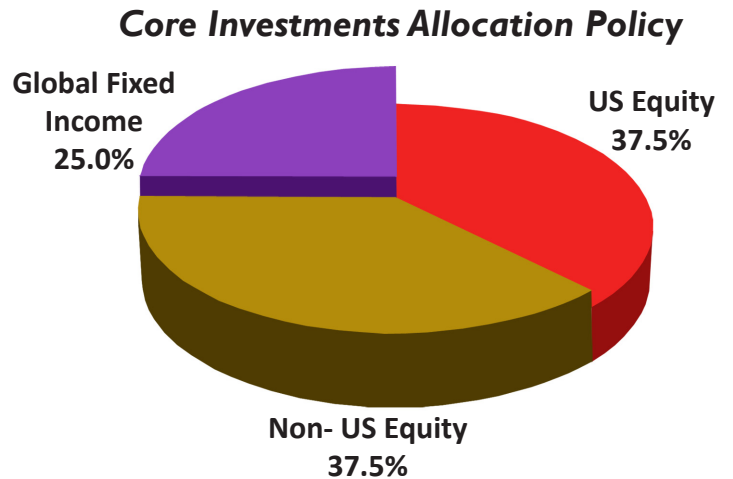
Asset Allocation

As of August 29, 2013, the asset allocation shall be as follows:

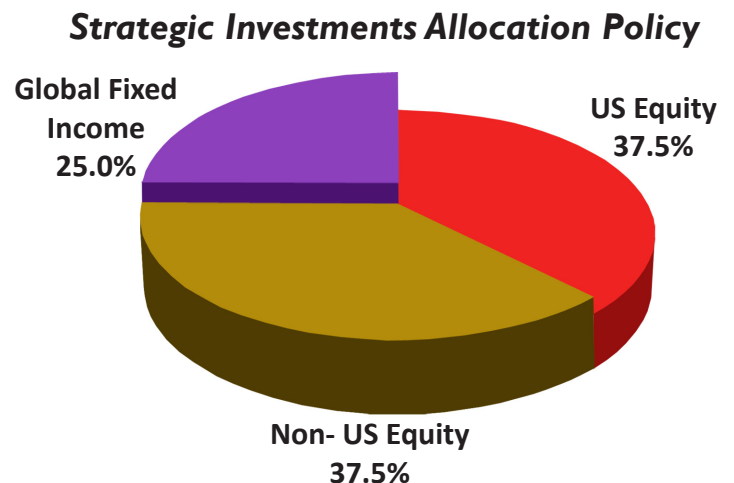
Asset Allocation Policy	
Asset Class	Portfolio Target Percentage
Core Investments ¹	40%
Strategic Investments ²	35%
Real Assets	10%
Private Markets	15%
Total	100%
Total Plan 10-Year Performance Expectation*	
	7.8%
Standard Deviation (Risk)*	
	13.2%
* Performance expectation and risk projection based upon Summit Strategies' 2012 assumptions.	



¹ Core Investments Allocation Policy	
Asset Class	Portfolio Target Percentage
U.S. Equity	37.5%
Non-U.S. Equity	37.5%
Global Fixed Income	25.0%
Total	100%



² Strategic Investments Allocation Policy	
Asset Class	Portfolio Target Percentage
U.S. Equity	37.5%
Non-U.S. Equity	37.5%
Global Fixed Income	25.0%
Total	100%



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 $\pm 5\%$ of the target shall constitute compliance with the policy.
2. A review of the allocation policy shall occur periodically to allow the Board of Trustees to consider the effect of any changes in market conditions or of the expectations for the retirement system.

Asset Guidelines

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

Stocks and Bonds (Domestic, International, & Emerging Markets)

The stock and bond holdings of the fund may include individual debt or equity securities issued by state, federal or foreign governments, or business entities domiciled therein. These holdings may also include mutual or commingled funds comprised of stock or bond holdings as well as individual instruments (e.g., futures and options) which may be utilized as an alternative to stock or bond positions as specified.

The stock, equity, bond, and debt holdings of the retirement system are subject to the Iowa Sudan Divestment Act of 2007, as enacted by the 2007 Iowa General Assembly and the Iran Divestment Act of 2011 as enacted by the 2011 Iowa General Assembly. Security holdings in the investment portfolios of the retirement system are subject to the non-investment and divestment provisions of the acts.

Other Asset Classes - Cash

The currency position of MFPRSI's investment portfolio may 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 (e.g., Euros) in which MFPRSI has determined to invest its assets. The fund's currency assets may be represented within the individual portfolios of the investment managers which are governed by investment mandates and may 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 investment mandates.

Other Asset Classes - Derivative Instruments

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

- As an alternative to maintaining a selected asset position.
- To maintain the duration of securities in a portfolio.
- To gain exposure in a time of U.S. dollar strength to a foreign bond market with minimal exposure to the currency of the country.
- To hedge or protect existing or anticipated portfolio positions.
- To establish and maintain the currency positions for currency overlay portfolio(s) and for the individual currency activities of the individual portfolios.
- Not to speculate or leverage the portfolio.

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

1. Over The Counter (OTC) derivatives: privately negotiated contracts provided directly by dealers to end-users. OTC derivatives may include swaps, futures, and options based upon interest rates, currencies, equities, and commodities.
2. Standardized contracts sold on exchanges. Both futures and options would be included under this definition.

Other Asset Classes - Real Assets

MFRPSI may from time to time invest in real assets. The largest portion of this asset class is real estate and may also include, but is not limited to other real assets, such as infrastructure, commodities, or energy related investments. Real assets may be domestic or international, and may be either liquid, marketable investments or private market investments. Other than such property as it may elect to purchase and occupy for use as administrative offices, MFPRSI will not invest directly in real estate as either an equity owner or lender.

Other Asset Classes - Private Markets

The fund may hire various investment managers who invest in private market opportunities, including but not limited to venture, buyout, opportunistic, secondary market, and direct investment. These opportunities will consist of investing in private companies that do not offer equity and fixed income securities on public markets.

Investment Objective & Performance Standards

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

Portfolio Definitions

The individual portfolios are established through contracts with the investment management firms selected to manage the fund's assets. The definition of each portfolio is described in the *Portfolio Descriptions* section of this document beginning on page 19 of this report. Refinements and modifications to the portfolios and to the applicable definitions may be performed as the Trustees review the investment program periodically.

Portfolio Adjustments

MFPRSI will allocate cash flows to establish the portfolios consistent with the target allocation for each portfolio type. Periodically, the Trustees will examine the weights of each portfolio relative to the targets and to the ranges established by the asset allocation policy. MFPRSI 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.

Time Horizon

The progress of the retirement system, its fund, and its components relative to 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 MFPRSI's purposes, a full market cycle encompasses both a down stage and an up stage, in either order. The up or down portions of each stage will be of at least two consecutive quarters in length. Therefore, a full market cycle may be as short as one year though, in general, market cycles are expected to last from three to five years.

The concept described above 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 Trustees reserve the right to take action relative to individual managers or to the portfolio as a whole without regard to the above described concept.

Return Objective

Over a full market cycle, MFPRSI's assets will be invested in a diversified manner which has as a performance objective a return of 7.8% with an annualized rate of inflation of 2.5% and a standard deviation of 13.2%.

Statistical Comparison

The investment returns on each asset class and the returns on the total investment portfolio and sub-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.

Investment Management Definitions

MFPRSI may utilize both index fund management and active portfolio management for investment of the portfolio. Index management and active management are defined thusly:

Index management - A portfolio or series of portfolios that are intended to emulate the performance of a specific index or indices which are representative of all or a portion of individual capital market(s). The portfolios will be fully invested except during periods of asset re-balancing.

Active Management - A portfolio that is actively managed by individual investment management firms with the intent of achieving performance surpassing 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

Domestic Enhanced Index

Intech Investment Managements LLC - Palm Beach, FL and Princeton, NJ

Intech Investment Management LLC employs a highly disciplined mathematical investment style designed to seek long-term returns while reducing the risk of significant underperformance. The firm applies mathematical principles to the universe of U.S. stocks to identify high volatility equities and determine the optimal proportion for each stock. The goal is to construct a portfolio that is efficient and neutral to its benchmark.

Domestic Short Enabled (130/30) Strategy

J.P. Morgan Asset Management - New York, NY

The process used by the Large Cap Core Plus (i.e., 130/30) portfolio utilizes long-only attractive equity assets with an overlay of short positions in unattractive equity positions. J.P. Morgan Asset Management moderately underweights or overweights assets when it believes such allocations will benefit the portfolio. Securities that are undervalued are purchased and securities that are overvalued are sold short. The portfolio will maintain an approximate net 100% long exposure to the equity market; however, the long and short positions will vary in size as opportunities in the market change.

Domestic Small Capitalization Equity

Dimensional Fund Advisors - Austin, TX

Dimensional Fund Advisors manage a disciplined and broadly diversified equity portfolio designed to capture risk factors that the firm, through rigorous research, believes generates higher portfolio returns over time. The process is designed to minimize asset turnover and trading costs and minimize market frictions. The portfolio invests entirely in U.S. small capitalization equity securities and will, for short durations, hold cash.

Actively Managed Master Limited Partnerships (MLP)

Tortoise Capital Advisors - Leawood, KS

Harvest Fund Advisors LLC - Wayne, PA

Tortoise Capital Advisors and Harvest Fund Advisors LLC invest in MLPs, which are limited partnerships that are publicly traded on U.S. securities exchanges. MLPs are limited by the U.S. Internal Revenue Service to only apply to enterprises that generate at least 90% of its revenue from qualifying sources - real estate, natural resources, and commodities. Both Tortoise Capital Advisors and Harvest Fund Advisors LLC manage separately managed accounts primarily focused on midstream energy infrastructure; however, both may invest in upstream and downstream energy infrastructure, as well.

Actively Managed International Equity

Baillie Gifford Overseas, LTD - Edinburgh, Scotland, UK
Mondrian Investment Partners, LTD - London, England, UK

Both Baillie Gifford Overseas and Mondrian Investment Partners manage diversified portfolios comprised of foreign equity. Each portfolio is invested in equities listed on established international stock markets. Baillie Gifford Overseas, LTD, uses a bottom-up, research driven approach with a preference for companies that will achieve an above average rate of growth while trading at a reasonable price. Mondrian Investment Partners, LTD, utilizes a top-down, value-oriented analysis focusing on companies whose stock is undervalued according to the firm's research. Both portfolios also invest in equities listed on emerging markets indices.

Passively Managed International Equity

State Street Global Advisors - Boston, MA

State Street Global Advisors (SSGA) manages an All Country World Index (ACWI) strategy that attempts to match, as closely as possible, the performance and allocation of the Morgan Stanley Capital International (MSCI) ACWI. The fund is not involved with securities lending and is, at all times, highly liquid.

Actively Managed Emerging Markets Equity

Dimensional Advisors - Austin, TX

Dimensional Fund Advisors administers a portfolio committed to emerging markets equity in both domestic and foreign currencies. The strategy invests in stocks listed on established international stock markets and intends to out-perform an emerging markets equity index. Stocks are selected according to the firm's research and preference for value (i.e., high book value vs. market value) at the time of purchase.

Fixed Income (Core-Plus)

Aberdeen Asset Management, Inc. - New York, NY

Aberdeen Asset Management, Inc., manages a Core-Plus+ fixed income fund invested in a wide variety of investment-grade fixed income securities issued by governments throughout the world, including the United States of America. The array of securities held by the fund is based on the firm's current views concerning yield, duration, maturity, issue classification, and security quality.

Fixed Income (Treasury Inflation Protected Securities)

State Street Global Advisors - Boston, MA

State Street Global Advisors (SSGA) operates a portfolio comprised of units of the SSGA U.S. Treasury Inflation Protected Securities (TIPS) Index Non-Lending Fund. This fund holds securities held by the Barclays Capital U.S. TIPS Index. The fund will not always fully replicate the securities listed by the index. The portfolio is managed duration neutral to the index.

Alternative Portfolio

Real Assets

Diversified Core / Core-Plus Portfolios

J.P. Morgan Asset Management - New York, NY
Principal Global Investors - Des Moines, IA
Sentinel Real Estate Corporation - New York, NY

The managers listed above maintain portfolios comprised of investments in both non-leveraged and leveraged real estate properties. The investments are either directly held through individual ownership or through participation in one or more commingled real estate property funds.

Value Added / Opportunistic Portfolio

Long Wharf Real Estate Partners, LLC - Boston, MA
Hines- Houston, TX
TA Associates Realty - Boston, MA
Ares Management - New York, NY
Contrarian Capital Management, LLC - Greenwich, CT

The portfolios managed by the Value Added/Opportunistic real estate managers are comprised of investments held in partnerships, trusts, or funds which acquire, manage, and dispose of both non-leveraged and leveraged real estate properties. The Value Added/Opportunistic portfolio is invested in funds, partnerships, or trusts which, in turn, invest in either one individual sector or across 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.

Commercial Mortgaged Back Securities (CMBS)

Principal Global Investors - Des Moines, IA

The firm manages a portfolio of CMBS securities with investments ranging from junior classes of AAA issues to select issuances in the A to A- range in order to optimize returns while accepting investment grade risk. The portfolio may also invest in select collateralized debt obligation (CDO) re-securitizations of prior CMBS issues.

Alternatives Investments in Private Markets

Adams Street Partners, LLC - Chicago, IL
Harbourvest - Boston, MA
Siguler Guff & Co. - New York, NY
Neuberger Berman - New York, NY

The managers listed above operate portfolios comprised of investments in “fund of funds,” which acquire positions in various venture capital funds, buyout funds, opportunistic funds, secondary opportunities, and direct investments. Investments made by the individual funds are made via equity ownership and/or privately placed debt. The strategy is comprised of commitments to specific funds of funds that have targeted investment strategies (e.g., venture capital, buy-out, distressed debt, etc.). Siguler Guff manages a separate account portfolio allowing for discretion to allocate across a broader group of opportunities.

Strategic Portfolio

Strategic Global Tactical Balanced - (U.S. Equity, International Equity, Fixed Income, Emerging Market Equity)

J.P. Morgan Asset Management - New York, NY
GMO and Co. LLC - Boston, MA

J.P. Morgan Asset Management and GMO and Co. LLC manage diversified portfolios comprised of fixed income, U.S. and international equity, emerging market equity, and debt. Both firms invest in securities in global markets with the intent to out-perform a composite index, which is weighted 75% to equity and 25% to fixed income.

Transitional Assets

Custodial Bank

Wells Fargo Institutional Retirement and Trust - Minneapolis, MN

The cash portion of MFPRSI’s assets held at its custodian, Wells Fargo Institutional Retirement and Trust, will be invested either in a STIF product available from the custodial bank or in a checking account which is managed by a subsidiary of the custodial bank.