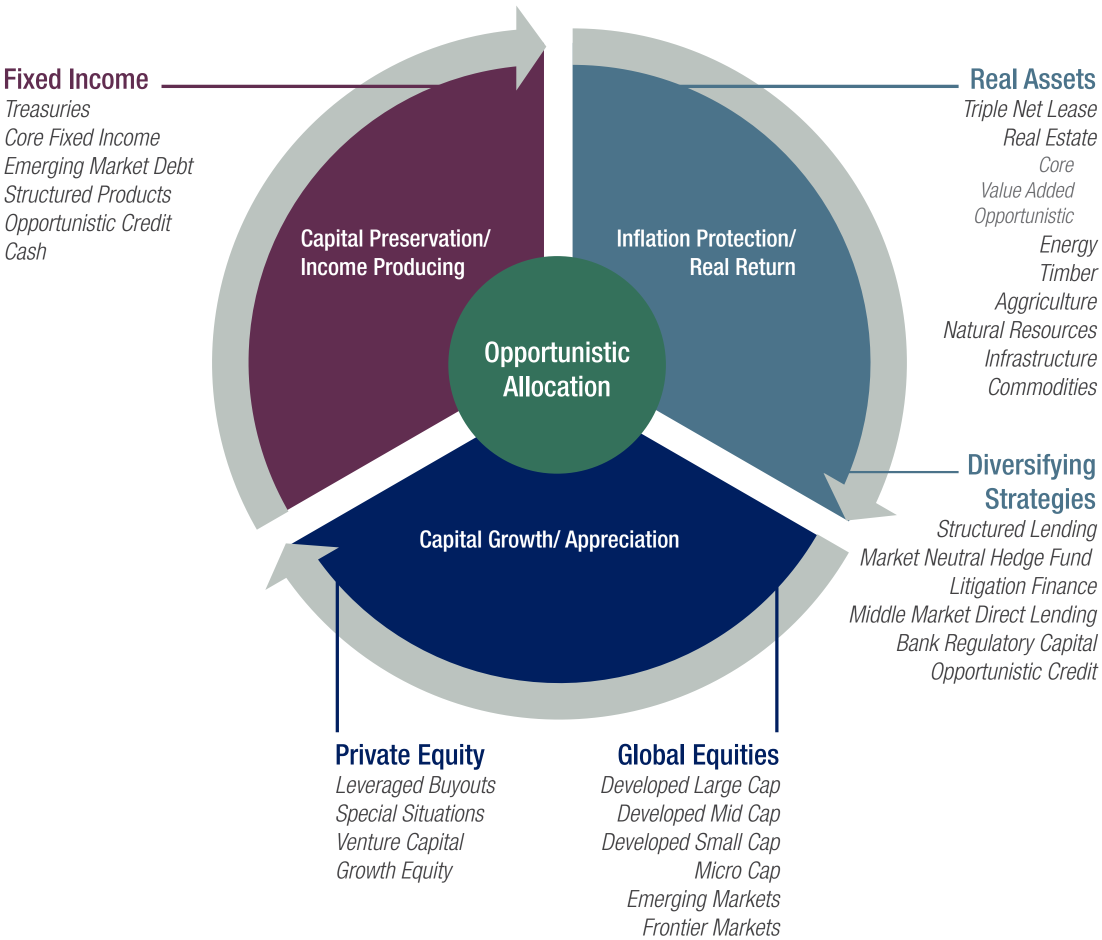
Municipal Employees' Retirement System

Defined Benefit Investment Policy Statement

Board Approved on January 31, 2018



MISSION STATEMENT

The Municipal Employees' Retirement System of Michigan (MERS) exists to provide quality retirement and related services with cost-effective plan administration for members and beneficiaries.

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Table of Contents
Defined Benefit Investment Policy Statement

MERS

Contents

I. INTRODUCTION 1
- Statutory Authority and Mission 1
- Investment Policy Statement 1

II. GOVERNANCE 2
- Fiduciary Duty 2
- Discretionary Authority 3

III. INVESTMENT APPROVAL PROCESS 4
- Roles and Responsibilities 5

IV. STATEMENT OF INVESTMENT PHILOSOPHY AND PRINCIPLES 6

V. INVESTMENT GOALS AND OBJECTIVES 6

VI. ASSET ALLOCATION POLICY 7
- Criteria for Inclusion of Asset Classes 7
  - Asset Allocation 8
- Portfolio Rebalance Policy 8
- Sub-Asset Class / Manager Rebalancing . . . 8
- Global Equity Portfolio Construction 9
- Global Fixed Income Portfolio Construction . . 9
- Real Assets Portfolio Construction 10
- Diversifying Strategies Portfolio Construction . 10
- Currency Management 11
- Liquidity 11
- Leverage 11
- Derivatives 12

VII. INVESTMENT MANAGER DUE DILIGENCE AND SELECTION 13
- Organization 13
- Investment Process 14
- Procedures 14
- Performance 14
- Price 14
- Portfolio Impact 15
- Manager Search Process 15

VIII. INVESTMENT MANAGER MONITORING AND RETENTION POLICIES 16
- Investment and Manager Monitoring 16
- Public Market Investments 17
- Private Market Investments 17
  - Comprehensive Manager Reporting . . . 18
- Manager Monitoring and Retention Process . . 18
- Investment Manager Retention Policy 19
  - Qualitative Assessments 19
  - Quantitative Assessments 20
- Courses of Action 21
  - Probation 21
  - Comprehensive Review 21
- Other Termination Conditions 22

IX. RISK MANAGEMENT AND CONTROLS 23
- Risk Management Framework 23
- Market Risk 24
- Guidelines and Compliance 24
- Liquidity Risk 24
- Other System Risks 25

X. SHAREHOLDER ACTIVITY 25
- Proxy Voting 25
- Class Action Lawsuits 25

XI. INVESTMENT PROGRAMS 26
- Internal Cash Pool 26
- Securities Lending 26

XII. APPENDIX 27

I. INTRODUCTION

Statutory Authority and Mission

The Municipal Employees' Retirement System of Michigan (MERS) is an independent, professional retirement services company that was created to administer the retirement plans for Michigan municipalities on a not-for-profit basis. MERS is a statewide voluntary organization that was created in 1945 by the Michigan Legislature. In 1996, the System was granted independence by the Legislature.

MERS offers a Defined Benefit Plan (DB), Defined Contribution Plan (DC), Hybrid Plan, Health Care Savings Program (HCSP), 457 Deferred Compensation Program (457), Retiree Health Funding Vehicle (RHFV), and Investment Services Program (ISP) (the "Plans").

The Retirement Board (Board) has delegated all investment management operations and activities to the Chief Executive Officer (CEO) and the Board's Investment Committee, except those specifically reserved by the Board. The CEO is directly responsible for all day-to-day activities of MERS. The CEO has delegated management of MERS' trust assets to the Office of Investments, including all investment management activities. All transactions undertaken on behalf of the Plans shall be for the sole interest of the Plans' participants and beneficiaries.

Investment Policy Statement

The Investment Policy Statement (IPS) outlines the investment goals, objectives, and policies of the MERS Total Market Fund (Fund). The purpose of the IPS is to ensure that the investment activities are carried out within the framework established by MERS policy and administrative documents. The IPS assists the Board, Investment Committee, and Office of Investments in effectively and prudently monitoring and administering MERS' investment. The IPS addresses the following:

- The goals of MERS' investment program;
- Investment policies;
- Performance objectives and evaluation;
- Major investment programs; and
- Investment processes and procedures.

The IPS is designed to provide sufficient flexibility in the management and oversight process to reflect the dynamic nature of the capital markets. It is a working document and may be modified as needed or as market conditions change. At a minimum, the IPS will be reviewed and approved annually by the Board.

II. GOVERNANCE

The overriding duty of the Board, Investment Committee, CEO, and the Office of Investments is to loyally carry out respective fiduciary duties to manage the assets of the System exclusively in the best interest of the System's participants. The establishment of a functional governance framework will support the fiduciary activities of the Board, Investment Committee, and Office of Investments.

In order to accomplish this, the governance structure should provide adequate flexibility and autonomy to ensure that investment objectives are met while maintaining a prudent level of oversight. Regulatory compliance should operate in tandem with the investment process. Regulatory compliance and robust governance structures protect the integrity of the System and its assets. This level of compliance is best accomplished through a clear delineation of duties. MERS has a long history of having appropriate separation of investment policy and investment management decision making.

Fiduciary Duty

The Board, as "investment fiduciary" under the Public Employee Retirement System Investment Act (PERSIA), MCL 38.1132 et seq., has the fiduciary responsibility and authority to direct the investment of MERS' trust assets. Board Members must discharge their duties for the exclusive benefit of plan participants and beneficiaries. PERSIA requires that the Board "act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims." MCL 38.1133(3).

The Board, CEO, and Office of Investments oversee and guide the investment of System assets and execute their fiduciary duty subject to the following principles provided in Section 13 of PERSIA, MCL 38.1133(3):

- Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered;
- Make investments for the exclusive purposes of providing benefits to participants and participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the System; and
- Give appropriate consideration to those facts and circumstances relevant to the particular investment or investment course of action involved, including the role the investment or investment course of action plays in the system's investments, and act accordingly.
    - Appropriate consideration includes, but is not limited to, a determination that a particular investment or investment course of action is reasonably designed, as part of the investments of the System, to further the purposes of the System, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action; and consideration of the following factors as they related to the investment or investment course of action:
        - The diversification of the investments of the System;
        - The liquidity and current return of the investments of the System relative to the anticipated cash flow requirements of the System; and
        - The projected return of the investments of the System relative to the funding objectives of the System.

In order to achieve these goals, MERS invests in the necessary resources to build and maintain an appropriate organizational infrastructure.

Discretionary Authority

The Retirement Board has delegated discretionary investment authority to the Investment Committee to hire and terminate investment managers.[1] The Investment Committee delegates certain discretionary investment authority through the CEO to the CIO and the Office of Investments as stated below, subject to approval by the Office's Portfolio Review Committee (PRC). This discretionary authority is subject to the following limits on investment size:

- Separate account or fund investments up to $50 Million;
- Co-investments up to $25 Million;
- Private placements (direct investments) up to $15 Million; and
- Any investments made under this provision are reported to the Investment Committee at the Committee's next scheduled meeting.

With increased internal, direct, private investing, upfront costs may be incurred in order to determine the suitability of a potential investment for the System. Such costs may include, but are not limited to, deal sourcing, market analysis, exploratory due diligence, and other expenses. The approval process for exploratory third party due diligence expenses for potential private investments will be as follows:

- The Office of Investments will in every case look to avoid such costs by either having the potential seller or potential partner fund such expenses;
- The Office of Investments will seek to have any upfront costs incorporated into the cost basis of completed investments;
- Third party due diligence costs referenced above, up to the lesser of $1.5M or 2% of the expected commitment, may be funded with PRC approval; and
- In situations where anticipated third party due diligence costs are expected to be greater than $1.5M or 2% of expected commitments, Investment Committee is required.

III. INVESTMENT APPROVAL PROCESS

- Prospective investments must be discussed at least twice by the PRC before a vote is taken.
  - Prior to the first discussion an investment memo or presentation shall be distributed to the PRC members.
- Any PRC approval requires a majority vote of the members. All PRC votes are recorded in the committee's meeting minutes.
  - Members are allowed to give another member their voting proxy in the event they will miss a meeting; but a quorum of the PRC is needed to hold a vote.
- The CIO retains veto power for all voting actions presented to the PRC.
- The CIO may unilaterally approve an investment without PRC approval when and if the CIO determines that, due time constraints outside of MERS' control, investment approval is needed before the investment can be approved by the PRC. The CIO will only approve investments under this subclause when the Office of Investments' underwriting supports approval of the investment.
- MERS will conduct an onsite visit of the investment or the manager's office before the investment is made.
- If Investment Committee approval is required, i.e., due to size of the investment, best efforts will be made to send materials to the Investment Committee members one week prior to the Investment Committee meeting.
  - Investment Committee approval is determined by a majority vote of the voting members. A quorum of the Investment Committee is required to hold a vote.

Roles and Responsibilities

MERS RETIREMENT BOARD	• Is the System's fiduciary • Appoints public members with investment expertise to serve on the Investment Committee • Appoints one Board member for two years to observe Investment Committee meetings (observer does not have voting privileges) • Monitors activity of the Investment Committee • Approves governance documents (Investment Guidelines, DB Investment Policy Statement, and Participant Directed Accounts & Institutional Funds Investment Policy Statement) • Sets the System's Asset Allocation • Establishes the long-term actuarial investment return assumption • Approves the System's Policy Benchmark
INVESTMENT COMMITTEE	• Contains three voting Board members, including two public members with investment expertise • Includes CEO and CIO (both non-voting members) • Serves as the Board's investment policy development arm • Monitors investment management activity and policy recommendations developed by the Office of Investments • Approves PRC investment recommendations to hire/terminate investment managers above PRC discretionary size limits • Provides advice on investment activities including: industry best practices, fiduciary duties, and risk expectations of the Board • Monitors portfolio risk and asset allocation
PORTFOLIO REVIEW COMMITTEE	• Office of Investments decision making body chaired by the CIO and key Office of Investments staff • Voting members are appointed by the CIO • Reports decisions to the Investment Committee • Determines tactical shifts to the Fund • Approves investments and co-investments up to discretionary size limits • Develop and maintain PRC operating guidelines
OFFICE OF INVESTMENTS	• Carries out all investment activity on behalf of the System; including policy documentation for Board approval • Hires/terminates all consultants, vendors, and custodial bank • Provides a monthly report on the Fund's activities and performance • Reports any material changes within the Fund to the Investment Committee and Board • Internally manages a portion of the Fund • Monitors external investment managers • Conducts its affairs in a manner that reflects the highest standards of ethical conduct, and complies with CFA Institute Code of Ethics and Standards of Professional Conduct. (Appendix)
MERS INVESTMENT MANAGEMENT RISK AND COMPLIANCE COMMITTEE	• Provides investment oversight outside of the Office of Investments, monitors operational market, and regulatory issues that may materially impact portfolio performance or put MERS at risk of regulatory sanctions • Promotes cross office discussion regarding varying potential risks including prevention and solutions • Consists of CEO, CIO, Chief Financial Officer, Deputy General Counsel for Investments and Compliance, Internal Auditor, Investment and Administrative Officer, and Analysts from the Office of Investments • Meets on a quarterly basis

IV. STATEMENT OF INVESTMENT PHILOSOPHY AND PRINCIPLES

Investing in today's financial markets is becoming increasingly more complex as a result of the rapid exchange of information, increased volatility, and global interconnectedness. Thus, it is important to identify core principles in order to simplify the investment decision making process. Following is a list of MERS' investment principles:

- Capital preservation is paramount;
- Keep it simple — if it can not be understood, do not invest in it;
- A clearly defined and sound governance structure is a prerequisite for the successful management of any investment strategy;
- Asset allocation is the most important decision faced by investors;
- A valuation-driven investment process can generate outperformance by exploiting market inefficiencies;
- Low-cost implementation is fundamental achieving required returns;
- The fund's long term time horizon allows it to capitalize on the constraints of short-term focused investors; and
- Diversification is critical because the future is unknown.

The Office of Investments believes that framing discussions around these central tenets will help achieve the stated investment goals and increase the probability of long-term investing success.

V. INVESTMENT GOALS AND OBJECTIVES

In conformity with PERSIA, the primary goal of MERS' investment program is to grow assets at a rate which, when coupled with employer and employee contributions, satisfies promised benefits to MERS members. To achieve this objective, the Investment Committee allocates MERS' assets with a strategic, long-term perspective and a high degree of prudence to reduce risk by:

- Exceeding the actuarial investment assumption on a long-term basis, which is currently 7.75%;
- Maintaining adequate liquidity to pay promised benefits;
- Adopting a strategic asset allocation plan that reflects current and future liabilities, minimizes volatility, and maximizes the long-term total rate of return;
- Minimizing the costs associated with implementation of the asset allocation through the efficient use of internal and external resources;
- Maintaining above median peer rankings for the 10-year time period; and
- Exceeding the return of the Fund's Policy Benchmark. The Policy Benchmark currently consists of:

Index	Weighting
Russell 3000	45%
MSCI ACWI IMI ex-US*	20%
Bloomberg Barclays Aggregate	25%
Bloomberg Barclays Global Aggregate ex US	10%

*Morgan Stanley Capital International All Country World Index IMI (net)

In order to ensure the Policy Benchmark is an appropriate measure of the System's investment program, the Board reserves the right to adjust it at any time there is a material change to the System's investments. An independent, third party will review the Policy Benchmark following an asset allocation study and submit its recommendation to the Board for approval.

VI. ASSET ALLOCATION POLICY

The Fund's asset allocation is the single most important determinant of achieving the stated investment goals. The Office of Investments conducts an asset allocation study every three years to assess portfolio construction and strategy. The Board adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities, and benefit payments;
- Historical and expected long-term capital market risks and returns for each asset class;
- Expected correlations of returns among various asset classes;
- An assessment of future economic conditions, including inflation and interest rate levels;
- Various risk/return scenarios; and
- Liquidity requirements.

Criteria for Inclusion of Asset Classes

The following criteria will be used in assessing an asset class for inclusion in the Fund:

- Sufficient size and liquidity to permit an investment by the Fund;
- Staff, investment manager, or consultant expertise to ensure proper due diligence and cost effective implementation;
- The incorporation of the asset class contributes to the return enhancement and/or further diversification of the Fund; and
- Ability to readily measure performance and risk against appropriate benchmarks.

Asset Allocation

Following is the MERS target asset allocation approved by the Board in 2016:

Asset Class	Target Weight	Min/Max Bands	Minimum Allocation	Maximum Allocation
Global Equity	55.5%	± 10.0%	45.5%	65.5%
Global Fixed Income	18.5%	± 7.5%	11.0%	26.0%
Real Assets	13.5%	± 5.0%	8.5%	18.5%
Diversifying Strategies	12.5%	± 5.0%	7.5%	17.5%

The Board sets target allocations to various asset classes that are designed to meet MERS' long-term objectives and establishes minimum and maximum allowable allocations for each asset class. The bands allow flexibility to pursue tactical shifts or investment strategies over shorter time periods.

Portfolio Rebalance Policy

In conducting rebalancing activities, the Office of Investments follows the following process:

- Review the asset allocation at least monthly to ensure conformance with the asset allocation set by the Board;
- Initiate rebalancing transactions to bring all percentages to values inside the bands or promptly seek Board approval to remain outside of the bands in the event that an asset class falls out of said bands;
- Deviate from an asset class's target allocation, but stay within the allowable bands when implementing a tactical shift or investment strategy;
- Implement rebalancing activities at a reasonable cost using either index futures via an external derivatives manager or hard dollars; and
- Approve all rebalancing transactions.

Sub-Asset Class / Manager Rebalancing

The use of sub-asset class/manager level rebalancing is meant to exploit mean reversion at a more granular level. It is recognized that sub-asset classes/managers are poised to perform well at different times and in different market environments. Thus, by incorporating market information, rebalance rules or triggers can be established to guide the desired asset allocation tilts within the Fund. A variety of factors will be included in the decision making process such as:

- Allocation level relative to target;
- Recent relative performance;
- Market correlation;
- Valuation — whether an asset class is overvalued or undervalued;
- Economic activity — different economic conditions favor different asset classes; and
- Market sentiment — volume, volatility, risk aversion, fund flows, etc.

The ultimate goal is overweighting a sub-asset class/manager when outperformance is likely and underweighting a sub-asset class/manager when it is likely to underperform. Doing so, systematically helps eliminate emotional decision making which leads to a better risk/return profile for the Fund.

Allocations to external investment managers are limited to 15% of the total Fund each; however, this excludes passive index strategies.

Global Equity Portfolio Construction

The Global Equity allocation is the largest driver of return and risk for the Fund. The portfolio is designed to provide long-term capital appreciation, generate current income, and provide a hedge against inflation. To manage risk the global equity assets are diversified across geographic regions, styles, and the market capitalization spectrum.

A core portion of the global equity portfolio is invested in highly liquid equity securities including, but not limited to, U.S. large cap equities, U.S. mid cap equities, and developed ex U.S. large and mid cap equities. The portfolio may also include higher risk investments such as small cap equities, micro cap equities, private equity, emerging market equities, and frontier market equities.

Both internal and external managers are used within the Global Equity portfolio. The use of a passive investment approach versus active management will vary based on the composition of the asset class. In efficient markets, such as U.S. large cap equities, passive exposure will be favored in order to reduce of management fees. In inefficient markets, such as emerging markets, active management will be favored in order to reduce risk and add value over a passive approach.

Global Fixed Income Portfolio Construction

The Global Fixed Income allocation plays a vital role for the Fund. The core of the portfolio includes investment grade securities such as U.S. Treasuries bonds, corporate bonds, and global investment grade debt. This portfolio is designed to provide downside protection, diversification, stable income, and liquidity. The core fixed income portfolio is expected to preserve capital and provide liquidity that may be used for portfolio rebalancing in stressed market environments.

The Global Fixed Income portfolio may also include higher risk investments such as high yield bonds, emerging market debt, structured credit investments, and other below investment grade securities. These below investment grade securities entail higher risk, including the potential impairment of capital and low liquidity. However, these securities tend to exhibit equity-like risk/return profiles combined with higher cash yields and will only be purchased when risk premiums are high.

Both internal and external management will be utilized within the Global Fixed Income portfolio.

Internal management will be focused on investment grade core fixed income and will entail active decisions regarding duration, sector allocation, and security selection within U.S. Treasuries, corporate bonds, and other sectors. External managers may also be used within Core Fixed Income. Risk characteristics (such as duration) will be monitored on an aggregate basis including both internal and external portfolios. External managers will be used in the management of sub-investment grade securities. The Office of Investments will utilize specialized managers to opportunistically invest in certain portions of the sub- investment grade fixed income market. Exchange Traded Funds (ETFs) and other index-linked products may also be used to cost-effectively implement bond strategies in lieu of using active managers.

Real Assets Portfolio Construction

The primary objective of the Real Assets allocation is to provide some degree of protection for the Fund against inflation. Secondary objectives are capital growth and if possible, current yield through cash dividends. Examples of potential real asset categories include:

- Real Estate;
- Commodities;
- Infrastructure;
- Timber; and
- Agriculture/Farmland.

The Real Assets portfolio will be constructed in a diversified manner, with no single investment comprising more than 20% of the total allocation to Real Assets. Investments in real assets may be either liquid (those that could be liquidated within 30 days) or illiquid (investments where capital is committed for multi-year periods of time). Illiquid strategies are defined as strategies with contractual lockups that would take greater than one year to liquidate. Examples of liquid real assets investments include commodities futures, sector specific equities, or sector specific publicly traded debt. Examples of illiquid investments include commingled funds, limited partnerships, co-investments or private placements.

Diversifying Strategies Portfolio Construction

The Diversifying Strategies allocation is expected to provide the Fund with downside protection and uncorrelated returns with traditional asset classes- specifically equities.

The following criteria are used to classify a diversifying strategy:

- Correlation or Beta of 0.40 or less with equity markets;
- Superior risk-adjusted returns (as measured by Sharpe ratio and other appropriate statistical measures); and
- Returns resulting from idiosyncratic (non-market) risks.

Illiquid and liquid strategies are both considered when funding the Diversifying Strategies portfolio. As a result illiquid Diversifying Strategies are expected to deliver higher returns with higher levels of risk. Liquid strategies are defined as strategies that can be liquidated within thirty days. These strategies will have lower expected returns and lower levels of risk.

The MERS Office of Investments adheres to the following portfolio construction guidelines for the Diversifying Strategies portfolio:

- The portfolio is diversified across a minimum of four different strategies at any one time;
- Each strategy targets a minimum of $100M and positions will be initiated at a minimum size of $50M when possible; and
- The Asset Allocation Study will determine the target allocation between illiquid strategies and liquid strategies.

Currency Management

Foreign currency risk is a consequence of global investing. Due to short-term speculation, central bank actions, and economic uncertainties, currencies can add volatility to a global portfolio. While issues arise in both active and passive currency hedging programs, the Office of Investments believes currency risk can be managed strategically in order to reduce risk and enhance returns in the long-term. Currency risk is viewed in the context of fundamentals such as currency valuations and economic conditions. Overvalued foreign currencies pose higher risk to the System's investments and undervalued currencies offer the potential to enhance long-term returns. Consideration is also given to the type of asset class (equity, fixed income, or alternatives) that the currency risk is derived from due to the fact that currency volatility has differing impacts on each asset class. The Office of Investments monitors global currency risk and valuations and implements hedges when risk is high. Hedging decisions are made at the discretion of the Office of Investments.

Liquidity

MERS' primary goal is ensuring the benefits promised to the System's participants are honored. Maintaining adequate liquidity is paramount to achieving this goal. The Office of Investments analyzes every investment in terms of the impact it will have on the Fund's overall liquidity. MERS recognizes that certain investments with a greater degree of illiquidity, such as private equity, real estate, infrastructure, etc., offer the potential for greater return and/or enhanced diversification. As a long-term investor, MERS has the ability to bear illiquid investments. In recommending allocations to illiquid asset classes, the Office of Investments considers projections of the net annual cash flows of MERS and determines a prudent level of assets that can be committed to illiquid investments. An investment is not made if the anticipated liquidity premium of the investment is deemed inadequate for the liquidity risk being assumed. The liquidity level of the Fund is managed such that the Fund maintains one and a half months of pension payments in cash or cash equivalent securities.

Leverage

Leverage is a condition where the net potential monetary exposure of an obligation exceeds the value of the underlying assets. Use of leverage is permitted by the System, except that the System may not "invest in derivatives for the purpose of leveraging [its portfolio] or shorting securities as a sole investment." See MCL 38.1133(8)(b) and 38.1140j(3). MERS recognizes that prudent use of leverage is an appropriate tool to enhance overall returns and is inherent in several asset classes such as real estate and private equity. Underlying portfolio managers may use leverage so long as it is used in a manner consistent with the approved investment strategies and is in compliance with the System's obligations under PERSIA. Use of leverage will be controlled by individual manager guidelines and will be subject to review by the Office of Investments and applicable consultants.

Derivatives

The System may invest in any of the following:

- A derivative that hedges positions of a non-derivative component of a portfolio that clearly reduces a defined risk;
- A derivative that replicates the risk/return profile of an asset or asset class;
- A derivative that rebalances the country or asset class exposure of a portfolio;
- A derivative in which the System has examined the price, yield, and duration characteristics in all market environments both at the time of investment and on an ongoing basis;
- A commingled or pooled investment fund that uses derivatives, if the fund's use of derivatives is consistent with this policy; and
- Over-the-counter derivatives if, in the case of an over-the-counter security, a minimum of two competing bids or offers are obtained. All counter-party risk in over-the-counter derivative transactions shall be examined at the time of investment and on an ongoing basis.

The aggregate market value of the underlying security, future, or other instrument or index made under this section shall not exceed 15% of Fund assets.

For the purposes of this policy, derivatives include, without limitation: futures contracts, options, options on futures contracts, forward contracts, swap agreements, including swap contracts with embedded options, any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling or holding investments, and any other instrument commonly used by institutional investors to manage institutional investment portfolios. However, for purposes of the asset limitation in this section only, "derivatives" does not include:

- Asset backed pools, mortgage backed pools, or collateralized mortgage obligations that are otherwise qualified under PERSIA and are no more exposed to prepayment risk or interest rate risk than the underlying collateral including planned amortization classes and sequential-pay collateralized mortgage obligations;
- Convertible bonds, convertible preferred stock, rights or warrants to purchase stock or bonds or notes or partnership interests, floating rate notes, zero coupon securities, stripped principal securities, or stripped interest securities, which items are otherwise qualified under PERSIA;
- Exchange-listed derivatives trading on a daily basis and settling in cash daily or having a limited and fully defined risk profile at an identified, fixed cost, including futures contracts and purchased options; and
- Currency forwards trading on a daily basis and settling in cash daily or having a limited and fully defined risk profile at an identified, fixed cost.

The System may not invest in derivatives for the purpose of leveraging a portfolio or shorting securities as a sole investment. See MCL 38.11.40j(3).

External managers may be permitted to utilize derivatives to implement their investment strategies. Each individual manager's guidelines shall specify restrictions regarding derivatives usage. Under no circumstances may derivatives or leverage be used to circumvent the intent or limits otherwise prescribed by this policy.

VII. INVESTMENT MANAGER DUE DILIGENCE AND SELECTION

In order to conduct proper due diligence and objectively evaluate prospective managers, a disciplined process is necessary. The goal of this process is to provide a consistent, systematic framework for investment manager due diligence and selection.

A successful due diligence process should:

- Result in hiring best-in-class investment teams;
- Seek to identify what will likely contribute to poor performance before it happens;
- Identify managers that have a greater likelihood of repeating success; and
- Result in a true partnership providing invaluable market insight to the Office of Investments.

Simple performance evaluation is imprecise and the connection between past performance and future performance is tenuous at best. Thus, the due diligence and selection process must incorporate both quantitative and qualitative components in order to consider all factors that contribute to an investment manager's success. The Office of Investments considers the following factors indicative of the likelihood of a manager's continued success:

Organization

- Stable ownership structure (preferably employee owned);
- Experienced, dynamic leadership;
- Sound financial condition;
- Company registration with the appropriate regulatory authorities;
- Key management turnover;
- Adequate staff resources and infrastructure;
- Compensation structure that creates an alignment of interest with clients;
- Cultural fit with MERS;
- Demonstrates value add outside core investment mandate;
- No material legal or regulatory issues; and
- Firm history of ethical behavior.

People

- Experienced and skilled investment staff;
- Depth of the investment management team;
- Contribution to the strategy's track record;
- Employees highly motivated to meet client objectives;
- Sufficient backup and ongoing training;
- Collaborative, team environment; and
- Strong alignment of interests with investor goals.

Investment Process

- Well-articulated philosophy as to how value is added in a particular market;
- Systematic, focused, and consistent across strategies;
- Exploits a perceived competitive advantage;
- Successful implementation in different market environments;
- Research driven investment process;
- High-quality deal flow and investment opportunities;
- Detailed portfolio construction process;
- Clear sell discipline; and
- Thoughtful consideration of strategy capacity.

Procedures

- Strong compliance and internal control systems;
- Firm wide focus on risk management that is incorporated into the investment process;
- Clearly delineated lines of authority and responsibility;
- Well defined trade management process that ensures best execution and minimizes cost; and
- Strong reporting capabilities.

Performance

Performance is reviewed based on both qualitative and quantitative measures, and must be consistent with the manager's stated investment style. Managers are encouraged to present performance in accordance with the Global Investment Performance Standards (GIPS) in order to assure an accurate and consistent comparison. Performance is compared to relevant market indices as well as a peer universe. The risk level is evaluated to determine whether the manager has provided solid returns given the level of risk it has taken. Special attention is also paid to strategy capacity and whether or not additional assets may adversely affect future performance. Consistent with MERS' investment philosophy, it is critical to understand where managers are in their performance cycle.

Price

Since management fees directly affect the returns of a manager, best efforts are made to achieve the best fee agreement possible. The Office of Investments leverages the scale of the investments to negotiate deals that are at the lower end of industry standards and highly competitive with peers. While it is understood that superior managers often have higher fee structures, performance expectations and cost are carefully balanced. Fees constitute the only determinable future cost of an investment; thus, it is critical to minimize fees to the extent possible. All else being equal, managers with lower fees will be favored.

Although each one of these broad criterion is important, some are more important than others in the manager selection process. Thus, each broad criterion will be considered according to its relative importance in the manager selection process.

Criteria for Manager Selection	Importance
Organization	**Moderate**
Structure, size, financial condition, client base	
People	**Highest**
Investment professionals, experience, compensation	
Process	**Highest**
Investment philosophy, style, portfolio construction, sell discipline	
Procedures	**High**
Trading, risk management, compliance, reporting	
Performance	**High**
Results relative to an appropriate benchmark and peers	
Price	**Moderate to High**
Investment management fees	

Portfolio Impact

Managers cannot be evaluated or selected without considering how they "fit" into the overall portfolio structure. In an effort to diversify risks and allow for disciplined rebalancing, the goal within each sub-asset class is to hire complementary managers that harvest uncorrelated sources of alpha. A variety of qualitative and quantitative factors are analyzed to determine whether a particular manager would help achieve this goal. These factors include, but are not limited to:

- Investment philosophy and process;
- Correlation of returns;
- Correlation of excess returns;
- Portfolio beta and standard deviation;
- Scenario analysis and stress testing;
- Investment style; and
- Back-tested composite return series (using various weighting schemes).

Manager Search Process

The Portfolio Review Committee determines when an investment manager search is necessary, primarily due to a manager termination, the need for a complementary manager, or the addition of a new asset class. The PRC designates a member of the investment team to lead the search. To identify prospective managers, the search lead will screen an investment manager database to identify potential managers. Media and industry contacts can be utilized to promote the search and allow prospective managers to express interest. The search will generally include a number of investment managers representative of the asset class universe, except in the case of a niche asset class where few managers exist or the Office of Investments decides that a sole sourced manager is in the best interest of the system. The search lead will present the recommendation and supporting analysis to the PRC for selection of finalist(s) (one to four managers).

VIII. INVESTMENT MANAGER MONITORING AND RETENTION POLICIES

Ongoing manager evaluation is paramount to successfully implementing the desired allocation and meeting overall investment objectives. In order to successfully evaluate investment managers, reasonable expectations and beliefs must be established. The Office of Investments holds the following expectations/beliefs with regard to investment manager performance:

- No investment manager or strategy should be expected to outperform its benchmark(s) at all times, in all market environments; such a standard is unrealistic and will likely lead to poor decision making;
  - Any manager with a superior long-term track record is virtually certain to underperform for multiple periods within that performance period;
- The expectation of outperformance by all of the Fund's managers at all times is both unrealistic and contrary basic principles of completely at odds with the desirability of risk mitigation through mandate and manager diversification; and
- Mean reversion is one of the few certainties in investing and thus it is critical for investors to be aware of a variety of cycles (economic, market, etc.) that have a direct impact on investment performance.
  - Investment manager performance goes through cycles and cycles imply reversion.

Investment and Manager Monitoring

Monitoring of MERS investments and investment managers is a critical function of the Office of Investments. It is a constant and deliberate activity that provides historical context, market information, and relevant data that can be relied upon for effective portfolio management decisions. In addition to ensuring that MERS receives accurate reporting submitted on a timely basis to the custodial book of record, monitoring of portfolio investments provides the Office of Investments with important quantitative and qualitative information upon which manager retention and termination decisions are made.

Investment and manager monitoring differs slightly between public market investments and private markets investments, given the different nature of the investments. Public markets investments are typically priced daily and are much more liquid than private markets, hence reporting can be completed shortly following the end of reporting periods and investment management agreements can be ended routinely at the discretion of MERS. Private market investments are not typically traded in open markets, and, therefore, lack daily pricing, which creates elongated reporting time frames. Additionally, management contracts for private market investments typically cover extended periods of time where the investment manager has broad discretion over when to buy or sell an investment, and MERS capital is committed for long periods of time with limited interim liquidity. Given these differences, monitoring requirements for public and private market investments are outlined below.

Public Market Investments

- Receipt of monthly and/or quarterly reporting materials within time frames established in investment management agreements and MERS Investment Guidelines;
- Quarterly detailed review of manager/strategy performance by Office of Investments staff;
- In-person manager meetings not less than once every year; and
  - At least one meeting every two years shall be on-site at the manager's office.
  - Other meetings shall occur at MERS office or a mutually determined off-site location.
  - Meeting requirements for managers who are in the process of closing their funds or in final disposition of fund assets shall be at the discretion of the Office of Investments.
- Periodic update calls as determined by the Office of Investments or Investment Committee.

Private Market Investments

- Receipt of quarterly capital account statements (and financial statements, if applicable) within time frames established in limited partnership agreements, investment management agreements, shareholder agreements, or other investment governance documents;
- Quarterly reporting in the format commonly known as the Institutional Limited Partners Association (ILPA) template, as applicable;
- Quarterly review of performance by Office of Investments staff;
- In-person meetings not less than once every two years, as detailed below:
  - Attendance at an annual partnership meeting, advisory board meeting, or on-site at the location of an investment shall satisfy this requirement;
  - Private placements (direct investments) require one on-site meeting every calendar year; and
  - Meeting requirements for investments in a wind-down or termination process shall be at the discretion of the Office of Investments.
- For private placements and investments held directly by MERS outside of a partnership structure (a "Private Investment"), where public market prices are not available, the Fair Market Value shall be determined as follows:
  - If a recent transaction involving a material amount of equity in a Private Investment has occurred, Fair Market Value may be determined from the pricing of the recent transaction according to rights and ownership percentages;
  - If a valuation is provided by an external manager of the investment or if MERS position in the Private Investment is alongside an established fund manager, MERS may utilize the market valuation as the Fair Market Value as long as the Office of Investments reviews the valuation approach and agrees with the methodology contained therein;
  - If a manager provided valuation is not available, then the Office of Investments will arrange for a third party valuation firm to establish a baseline valuation in accordance with GASB 72 and FASB Statement ASC 820 for each Private Investment as follows:
    - o Private Investments acquired between January 1 - June 30 of each calendar year – Baseline valuations shall be done prior to December 31 of that year or
    - o Private Investments acquired between June 30 - December 31 of each calendar year – Baseline valuations shall be done prior to June 30 of the following year;

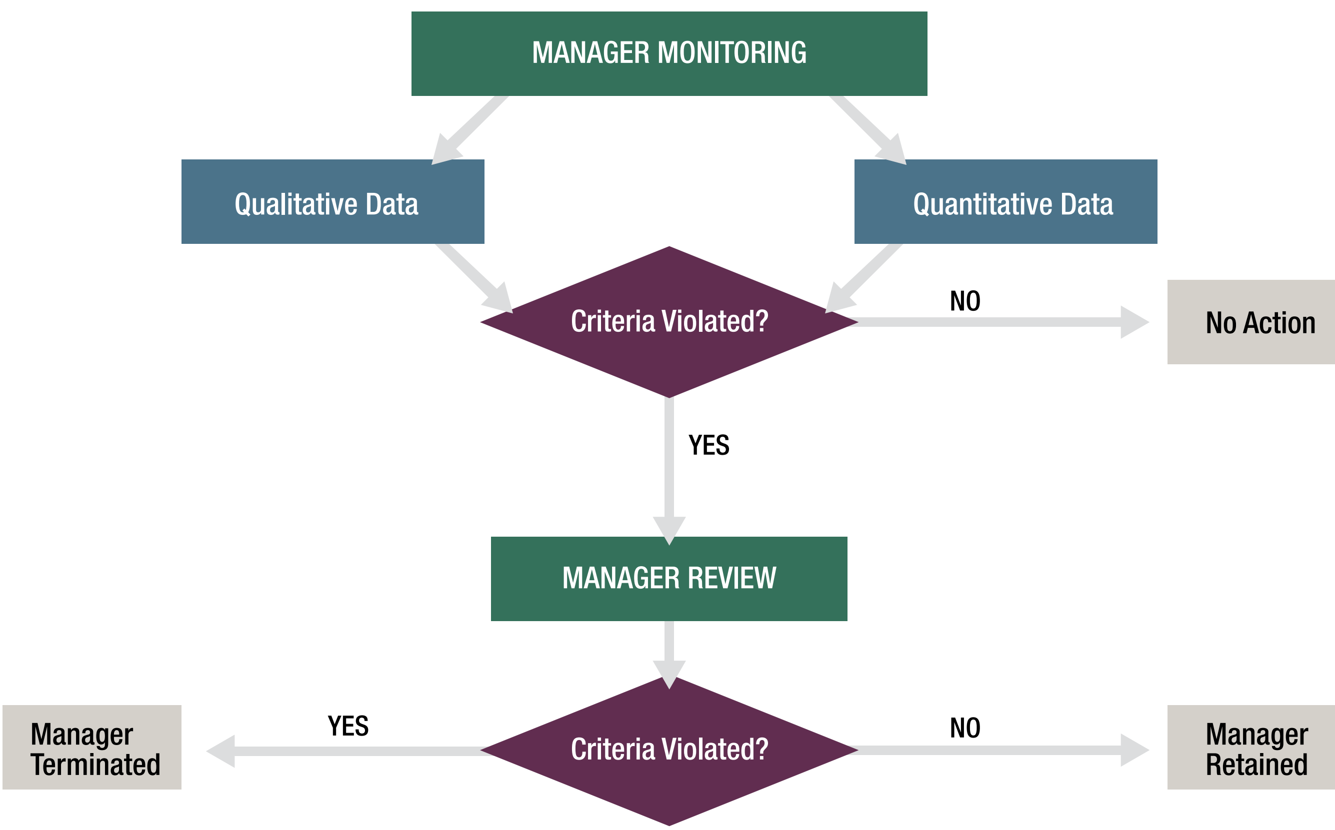
- Baseline valuations will be evaluated by the Valuation Committee not less than annually. Should the Valuation Committee determine that there has been a material change in the baseline value, a new third party baseline valuation report will be ordered. Such new baseline valuation will be reported to the custodial bank as the new Fair Market Value of said Private Investment; and
- If the Valuation Committee determines that the baseline valuation has not changed materially, a new baseline report shall not be required until December 31 of the 3rd year following the baseline valuation. The new baseline valuation shall then be reported to the custodial bank as the new Fair Market Value.

- Deviations from this policy (for example if a sale of an investment is pending or if a financing transaction is in progress) shall be documented and reviewed by the Valuation Committee; and
- Periodic update calls as determined by the Office of Investments or Investment Committee.

Comprehensive Manager Reporting

The Office of Investments shall annually prepare for the Board a comprehensive annual performance of managers (CAPM) report. The report will include a high level summary of each manager's strategy, various qualitative assessments, and supporting performance analytics.

Investment Manager Retention Policy
Manager Monitoring and Retention Process



Investment manager retention and termination decisions have high costs whether it be the decision to retain unskilled managers for too long or the decision to terminate a skilled manager prematurely. Not only are the costs of redeploying assets considerable, but the variability of most manager returns complicates straightforward evaluations of manager skill. Without reliable assessments of manager skill, MERS has little assurance that a new manager will perform better than a previously terminated manager.

This policy provides a systematic, consistent, and rational framework for manager retention and termination decisions, thereby avoiding untimely actions that may adversely impact the Fund's returns. In addition, the policy is intended to:

- Foster a long-term approach to manager evaluations;
- Provide a logical and consistent framework to evaluate manager skill;
- Improve client/manager communication by apprising each manager of the quantitative and qualitative standards by which they will be judged, and the near-term and long-term consequences of failing to meet these standards;
- Promote timely and appropriate responses to actual and potential performance issues; and
- Provide flexibility to allow application across all asset classes, management styles, and market environments.

Although quantitative assessments of manager success are useful in judging whether managers have been successful in the past, they can be poor predictors of future success. Since MERS' goal is to determine the likelihood of future success, it is critical that the ultimate retention/termination decision focus on the qualitative aspects of each manager relationship as well as quantitative assessments of past performance.

Qualitative Assessments

The qualitative aspects of each manager relationship will be monitored through frequent oral and written contacts by a MERS investment officer or investment analyst with each manager. Qualitative assessments will focus on organizational and staff stability, adherence to investment philosophy and process, asset/client turnover, the quality of client service (value add), and the cultural fit with MERS.

A significant and potentially adverse event related to, but not limited to, any of the following qualitative issues or events will generally result in a low qualitative score on the annual manager evaluation or cause the Office of Investments to place the manager on Probation, depending on the severity of the event or issue. Red flags may include:

- A significant change in firm ownership and/or structure;
- The loss of one or several key personnel;
- A significant loss of clients and/or assets under management;
- A profound shift in the firm's philosophy or process;
- A significant and persistent lack of responsiveness to MERS' requests;
- A change in MERS' capital market beliefs that eliminates the need for a particular manager's investment style or strategy;
- A significant decrease in the quality or volume of deal flow and/or a marked change in the

investment types or deal terms negotiated by the manager;
- Violations of MERS' Investment Guidelines; and
- Material adverse legal or regulatory proceedings and violations.

Quantitative Assessments

The manager evaluation process should focus on the above qualitative factors, and be supplemented with diligent quantitative review. The quantitative review should not only focus on performance, but also on a variety of metrics which should include appropriate peer comparisons, multiple investment cycles (if applicable), and risk assessment. The illiquid and long-term nature of private market investments necessitates a different quantitative assessment methodology from that utilized in the public markets. The sections below describe in detail the methodologies employed in public and private market manager performance evaluations.

Public Market Managers — Because of the large degree of variability in manager returns, it is often very difficult to assess whether a manager's over/under performance is the product of randomness or true investment skill. MERS' quantitative skill analysis considers the variability of a manager's excess return, in addition to the absolute magnitude of the excess return, when making judgments about manager skill. Skilled managers often have periods of underperformance, just as unskilled managers often experience periods of overperformance. Over long time periods, however, skilled managers will produce a larger average excess return more frequently than their unskilled peers. Skilled managers will also have greater risk adjusted returns than their unskilled counterparts.

- Active Managers — MERS will utilize a variety of statistical performance measures over various time periods when analyzing manager performance and assessing skill. These measures include, but are not limited to the following:
  - Cumulative and rolling returns;
  - Cumulative and rolling excess returns;
  - Cumulative and rolling performance analysis graphs;
  - Upside/downside capture ratios;
  - Information ratio;
  - Alpha and beta;
  - Standard deviation and tracking error;
  - Risk-adjusted performance;
  - Peer universe comparisons;
  - Maximum drawdown;
  - R-squared; and
  - T-statistic and significance level.
- Passive Managers — The skill analysis methodology applied to MERS' active management strategies is inappropriate for passive management strategies because of the low variability of manager returns and a zero alpha expectation. Enhanced passive strategies with explicit alpha expectations will be considered active management strategies for the purposes of monitoring performance. As such, enhanced passive strategies will be subject to the "Active Manager" performance guidelines outlined in this policy.

Private Market Managers — Annually after each calendar year end, the Office of Investments will evaluate each private market manager's performance relative to its performance objective and, when appropriate, to an asset class benchmark. In general, staff will utilize a rolling seven-year evaluation period for MERS' private market investments, and such quantitative analysis shall be factored into the manager's annual evaluation score as prepared for the CAPM.

Courses of Action

In addition to identifying existing and potential problems, an important purpose of the investment manager retention policy is to outline how and when MERS addresses specific issues and events. Judgments as to whether a manager has achieved MERS' investment objectives, and whether a manager will achieve MERS' investment objectives in the future, ultimately rest with the Office of Investments and the IC. Accordingly, the Office of Investments and the IC reserve the right under this policy to pursue, at any time, any course of action in response to absolute, relative, historic, or perceived future investment performance.

Depending on the significance of the issue or event, the following are four possible courses of actions:

- Take no formal action and continue to monitor the situation;
- Place the manager on Probation;
- Initiate a Comprehensive Review; or
- Under extraordinary circumstances, terminate the manager immediately without a Comprehensive Review.

Probation

A manager will be placed on Probation by the PRC as a result of a significant and potentially adverse development involving the manager- either quantitative or qualitative. Probation communicates to the manager MERS' concern about a particular situation. The Office of Investments will meet with the manager within 90 days of being placed on Probation to discuss the situation. A manager will remain on Probation until the issue is resolved to MERS' satisfaction as determined by the PRC. MERS will provide notification to the manager at the beginning and end of the Probation process.

Comprehensive Review

A manager will be placed on Comprehensive Review if its annual overall score for the CAPM scorecard, is rated 2 or below. This score reflects serious underperformance of a manager relative to its benchmark or a significant and adverse change to the manager's organization, personnel, or investment process. These events cause the Office of Investments to seriously question the firm's ability to achieve MERS investment objectives in the future. A Comprehensive Review is a thorough, in-depth, due diligence effort, similar in scope to MERS' manager selection process. It explores all elements of a manager's organization, personnel, and investment philosophy/process. Comprehensive Reviews will be completed within 90 days of initiation. In undertaking a Comprehensive Review, the Office of Investments is ultimately trying to answer the question: **Should the firm be rehired today given the current events and prevailing circumstances?** Thus, the outcome of a Comprehensive Review is a decision to retain or terminate the manager. Therefore, the Comprehensive Review will entail the same criteria outlined in the Manager Due Diligence and Selection process and will focus on whether the firm currently embodies the relevant characteristics to provide reasonable assurance that MERS' investment objectives will be achieved in the future. MERS will provide notification to the manager at the beginning and end of the Comprehensive Review process.

Other Termination Conditions

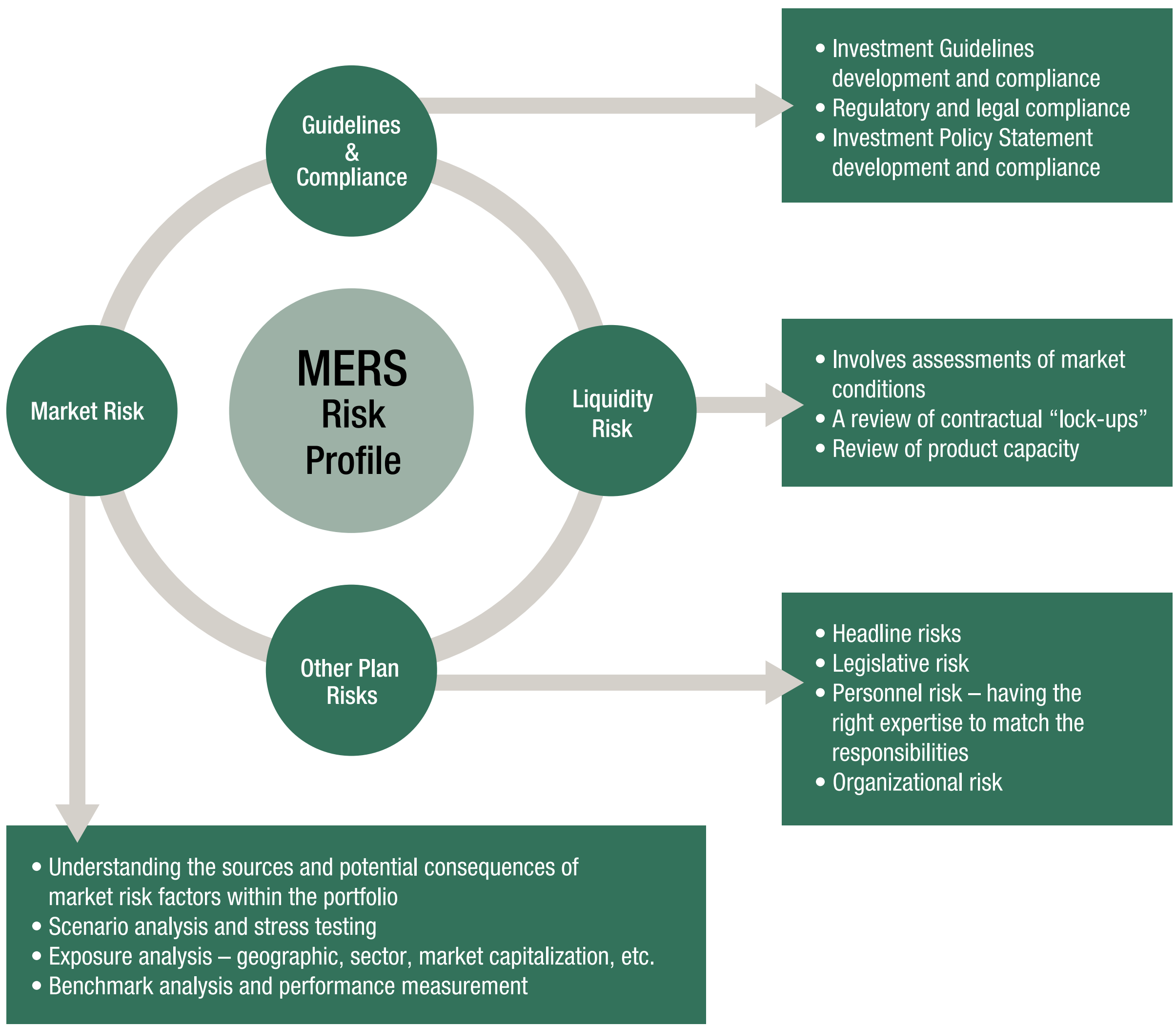
Going forward MERS investment management contracts must permit MERS to terminate the manager, with or without cause, after written notice (no-fault termination). Any investment management contract must also permit MERS to terminate a manager for cause upon learning of a manager's malfeasance or breach of contract.

The nature of certain private market investment vehicles may severely restrict or prohibit the immediate withdrawal of funds and/or the transfer of assets to another manager. In such cases, the decision to terminate a manager may be impractical and, therefore, MERS' actions may be limited to filing a withdrawal request with the manager and waiting until the investments can be liquidated in a prudent manner, or seeking other disposition strategies.

IX. RISK MANAGEMENT AND CONTROLS

For a public pension plan, risk management is a broad concept that touches every aspect of the Fund's management. Sound risk management involves identifying the various risks and mitigating unintended or undesired risks to the extent possible. This requires in-depth analysis of both processes and portfolio positions. The goal is to ensure that all risks are adequately compensated and appropriate for the stated objectives and market environment. MERS has established an Investment Management Risk and Compliance committee as the formal oversight body at the enterprise level, which monitors operational, market, and regulatory issues that could have a material impact upon portfolio performance or put MERS at risk to regulatory sanctions.

Risk Management Framework



Market Risk

The largest source of risk for the Fund is market risk. Market risk is unavoidable as it affects every asset class within the Fund. There is a general understanding that each asset class exhibits a variety of different risk factors relating to market risk. The most notable forms of market risk include:

- Equity risk;
- Interest rate risk;
- Inflation risk;
- Credit risk;
- Currency risk; and
- Asset/liability interaction.

As asset managers, it is important to assess how each factor is likely to perform in different economic and capital market environments. The way in which these risk factors interact within the Fund can then be evaluated and managed accordingly. The simplest way to mitigate market risk is through diversification. Thus, the bulk of staff time is spent on developing the strategic asset allocation and selecting managers to carry out the desired asset allocation. The manager selection process includes a thorough review of each manager's risk management and controls to ensure that they are adequate. When assessing market risk at the total Fund level, the two main questions to be answered are: **1) how much risk is present in the portfolio, and 2) where are the risks?** A combination of tools are utilized to monitor and quantify the various market risks present in the Fund. Stress testing and scenario analysis is conducted to evaluate the impact of various market risk factors as well as potential worst case outcomes.

Guidelines and Compliance

The development of guidelines and compliance with those guidelines is an essential component of risk management. The manager selection process includes a thorough review of each manager's internal controls and compliance procedures to ensure adequacy. In addition to State Street's compliance team and resources, in-house compliance processes and reports have been established to monitor each manager's portfolio. The Office of Investments regularly monitors all compliance reports for any significant deviations or breach of stated guidelines. Guidelines and expectations for each manager are reviewed and updated on an annual basis. Each public market investment manager with a separately managed account structure is required to adhere to the Investment Guidelines Requirements for investment strategies that are not separately managed accounts are covered in the strategy's contract documents.

Liquidity Risk

The most straightforward measure of liquidity risk is the deficiency of cash to meet current liabilities. However, a second issue relating to liquidity risk is the opportunity cost relating to the inability to source cash in order to rebalance or take advantage of investment opportunities. The Office of Investments analyzes every investment in terms of the impact it will have on the Fund's overall liquidity. Liquidity risk is mitigated by maintaining a dedicated allocation to cash and other high quality, liquid securities. In order to monitor portfolio liquidity, a report has been developed which breaks down the Fund's allocation in terms of days to liquidate. Special attention is paid to contractual lockups that restrict the ability to access capital.

Other System Risks

In addition to previously stated risks, there are several other System risks that must be managed. These risks range from legislative pressures that may adversely affect the System's structure or employee participation. Headline risk from a media event will have an adverse effect on the System and cause members to react negatively before they understand the issue.

X. SHAREHOLDER ACTIVITY

Proxy Voting

Proxy voting is considered an extension of the portfolio management process with the objective to maximize long-term investment performance. External managers are responsible for voting proxies on behalf of MERS. A third-party Proxy Voting Agent has been contracted to perform all proxy voting and record keeping functions for MERS' internally managed portfolios. The Proxy Voting Agent will vote all proxies in accordance with Glass Lewis Guidelines and PERSIA. Glass Lewis is a leading, independent governance services firm that provides proxy research and vote management services to more than 1,200 clients throughout the world. Glass Lewis serves only institutional clients, for which it actively engages with regulators, investors, issuers, and other stakeholders across the globe for proxy management.

Generally speaking, proxies are voted in accordance with management's recommendation except in circumstances where the proposal could adversely affect shareholder value. The Office of Investments will make a best effort to identify such issues. Examples of such exceptions include but are not limited to the following:

- Anti-takeover amendments such as fair price provisions and staggered Board provisions;
- Poison pill provisions designed to discourage another entity from seeking control;
- Greenmail attempts;
- Golden parachutes and related management entrenchment measures; and
- Oversized stock option grants and strike price revisions.

The Office of Investments may add or remove proxy voting restrictions or allowances at its discretion, and shall report any changes to the Board. The Board acknowledges its fiduciary responsibility to vote proxies in a timely manner and maintain accurate records of all proxy voting activity in compliance with all applicable laws.

Class Action Lawsuits

As an institutional investor, MERS is frequently a class member in securities fraud class actions that seek to recover damages resulting from alleged wrongful acts or omissions of others. MERS General Counsel monitors class action filings and evaluates litigation options on an on-going basis, pursuant to a written securities litigation policy, to ensure that the interests of the System's participants are protected.

XI. INVESTMENT PROGRAMS

Internal Cash Pool

Residual cash of the Fund is pooled into one account at the custodial bank. The cash pool is invested in the custodial bank's Short Term Investment Fund (STIF). Cash in the pool may be used as collateral for tactical investments employed by the System, such as swaps, futures, etc. Portions of the cash pool can be segregated and invested to meet the specific requirements of such investment strategies or invested in fixed income securities. The cash pool is actively managed by the Office of Investments.

Securities Lending

The System utilizes a securities lending program through its custodial bank, in accordance with Section 20e of PERSIA, MCL 38.1140e. The goal of the securities lending program is to increase Fund income and to offset investment management-related expenses.

Investment Procedures/Reporting Calendar

DAILY	• Investment Guidelines compliance monitoring (Office of Investments & State Street) • Capital call and distribution processing (Office of Investments & State Street) • Asset allocation monitoring (Office of Investments & Parametric) • Daily performance reporting (State Street) • Cash flow reconciliation (Office of Investments & State Street) • Trade settlement (Office of Investments & State Street)
WEEKLY	• Bi-weekly PRC meeting (Office of Investments)
MONTHLY	• Account reconciliation (Office of Investments, State Street, & Managers) • Monthly performance reporting (State Street) • MERS performance reporting to Board (Office of Investments) • Pay pension voucher (Office of Investments) • Investment Committee conference call or meeting (Office of Investments & Investment Committee)
QUARTERLY	• Asset allocation review and rebalancing (Office of Investments) • Manager style, risk, and performance review (Office of Investments & State Street) • Calls with managers for portfolio, economic, and market updates (Office of Investments & Managers) • Review of DC program and fund lineup (Office of Investments) • Report on DB/participant directed accounts and institutional funds portfolio activity (Office of Investments) • Pay investment management fees (Office of Investments)
YEARLY	• Fee and expense analysis (Office of Investments) • Asset allocation review and rebalancing (Office of Investments) • Comprehensive Annual Performance of Managers (CAPM) presentation to the Board • Investment Guidelines update and Board approval (Office of Investments, Investment Committee, & Board) • Investment Policy Statement update and Board approval (Office of Investments, Investment Committee, & Board) • Benchmarking for peer comparison purposes (Office of Investments & outside vendors) • Annual audit (Office of Investments & External Auditor) • CAFR preparation (Office of Investments)
THREE YEARS	• Asset allocation study (Office of Investments)
FIVE YEARS	• Actuarial experience study (Actuary)

CFA Institute

CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® [CFA®] designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

STANDARDS OF PROFESSIONAL CONDUCT

I. PROFESSIONALISM

A. Knowledge of the Law. Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

B. Independence and Objectivity. Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

C. Misrepresentation. Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

D. Misconduct. Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

II. INTEGRITY OF CAPITAL MARKETS

A. Material Nonpublic Information. Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

B. Market Manipulation. Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

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III. DUTIES TO CLIENTS

A. Loyalty, Prudence, and Care. Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

B. Fair Dealing. Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

C. Suitability.

1. When Members and Candidates are in an advisory relationship with a client, they must:
   a. Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
   b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
   c. Judge the suitability of investments in the context of the client's total portfolio.
2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

D. Performance Presentation. When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

E. Preservation of Confidentiality. Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client,
2. Disclosure is required by law, or
3. The client or prospective client permits disclosure of the information.

IV. DUTIES TO EMPLOYERS

A. Loyalty. In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

B. Additional Compensation Arrangements. Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest unless they obtain written consent from all parties involved.

C. Responsibilities of Supervisors. Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

A. Diligence and Reasonable Basis. Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

B. Communication with Clients and Prospective Clients. Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

C. Record Retention. Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment-related communications with clients and prospective clients.

VI. CONFLICTS OF INTEREST

A. Disclosure of Conflicts. Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

B. Priority of Transactions. Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

C. Referral Fees. Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.

VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

A. Conduct as Participants in CFA Institute Programs. Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.

B. Reference to CFA Institute, the CFA Designation, and the CFA Program. When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.

CFA Institute

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