

INVESTMENT POLICY STATEMENT

STATE OF MICHIGAN RETIREMENT SYSTEMS

Effective November 1, 2014

I. Introduction

A. This Investment Policy Statement (Policy) provides the framework for the management of the public pension fund investments of the State Treasurer. Pursuant to state law, the State Treasurer is the custodian and investment fiduciary of the Michigan Public School Employees' Retirement System (MPERS), the Michigan State Employees' Retirement System (MSERS), the Michigan State Police Retirement System (MSPRS), and the Michigan Judges Retirement System (MJRS). Collectively, the pooled investment assets of these four systems comprise the component units of the State of Michigan Retirement Systems (SMRS). Additionally, the State Treasurer carries out investment functions for various trusts, agencies, and other entities when directed to do so through legislation or other delegation of authority.

The investment policies and objectives of SMRS are intended to allow for sufficient flexibility in the management process to capture investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the investment program. The State Treasurer, as sole fiduciary in investing SMRS assets, shall 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 these matters would use in the conduct of an enterprise with similar aims, in accordance with the Public Employee Retirement System Investment Act, 1965 PA 314, MCL 38.1133(3) (as amended P.A. 314).

The authority of the Michigan Department of Treasury's Bureau of Investments (BOI) to act on behalf of the State Treasurer in carrying out investments is grounded in MCL 16.191 and delegated by this Policy.

B. The asset class divisions of the BOI, subject to necessary revisions by the State Treasurer or BOI, are as follows:

1. Defined Contribution, Trusts & Agencies Division (DCTA)
2. Long-Term Fixed Income Division (LTFI)
3. Private Equity Division (PED)
4. Quantitative Analysis Division (QAD)
5. Real Estate & Infrastructure Division (REID)
6. Short-Term, Absolute & Real Return Division (STARR)
7. Stock Analysis Division (SAD)

II. Assignment of Responsibilities

- A. The State Treasurer is the sole fiduciary and custodian of SMRS investments pursuant to state law. The State Treasurer, with input and analysis from BOI investment personnel, Investment Advisory Committee (IAC) members, internal and external investment managers, consultants, and other service providers, as needed, shall do the following:
1. Conduct, approximately every two years, asset liability studies for each fund and distribute such studies to IAC members.
 2. Establish, approximately every two years, a long-term fund target asset allocation, based on the analysis and advice of the BOI.
 3. Establish, through this Policy, delegation of authority and investment responsibility.
- B. The Chief Investment Officer (CIO) of the BOI serves as the senior administrator of the BOI and as the CIO of the SMRS pension funds. The CIO will implement the goals as described in Section III of this document as well as direct the investment and non-investment operations of the BOI, including each major asset class, in compliance with statutory requirements, prudent investment principles, and sound business practices.
- C. Pursuant to MCL 16.191 and P.A. 314, the State Treasurer delegates investment approval authority of publicly traded equities and fixed income securities to the BOI and external managers. Absolute return, real return, and opportunistic investments made under the STARR Division are delegated to the CIO or the BOI's external investment managers where applicable.

Approval from the State Treasurer is required for investments in real estate, infrastructure, private equity, venture capital, or similar private market funds made within the REID, PED or DCTA¹ divisions, in amounts greater than 1% of the SMRS' most recent combined quarter-ending Assets Under Management (AUM). If the State Treasurer position is vacant or if the State Treasurer is not readily available, the CIO may approve with notice to the State Treasurer as soon as reasonably practicable.

- D. The investment rate of return for each system shall be reviewed by an actuary at least once every 5 years. The actuary shall make a recommendation for the investment rate of return, which shall be presented for adoption to the retirement board of each system and the Department of Technology, Management, and Budget (DTMB). The investment rate of return for SMRS is presently targeted at 8%.

¹ The DCTA is responsible for managing investments for various trusts and agencies where the State Treasurer is delegated investment authority through statutes or constitutional provisions. Private market investments entered into by the State Treasurer on behalf of trusts and agencies managed by the DCTA shall be subject to the same investment approval processes applicable to other private market divisions.

- E. The State Treasurer shall report investment returns and strategy quarterly to the IAC, which reviews the investments, goals, and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The IAC may also, by a majority vote, direct the State Treasurer to dispose of any holding which in its judgment, is not suitable for the fund involved, and may by a unanimous vote direct the State Treasurer to make specific investments.
- F. The State Treasurer and the BOI, as investment fiduciaries for SMRS, may enter into contracts and pay reasonable compensation for services to investment advisors, consultants, custodians, accountants, auditors, attorneys, actuaries, investment personnel, and administrators, as permitted by Section 13 of P.A. 314.

III. General Objectives, Goals, and Policies

The general objectives define the goals to be achieved through the management of SMRS assets. General policies provide guidelines for the State Treasurer, as sole fiduciary, to follow in meeting the general objectives.

A. General Objectives:

- 1. The overall objective of the SMRS is to provide retirement, survivor, and disability benefits to its members through the investment of contributions and other SMRS assets.
- 2. The overall goals of the State Treasurer and BOI in the administration of the investment assets of SMRS are:
 - a. Maintain sufficient liquidity to pay benefits.
 - b. Meet or exceed the actuarial assumption over the long term.
 - c. Perform in the top half of the public plan universe over the long term.
 - d. Diversify assets to reduce risk.
 - e. Exceed individual asset class benchmarks over the long term.
- 3. The primary investment objective is to earn the approved actuarial rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to reduce risk and to meet the actuarial assumption for the investment rate of return, at a reasonable cost, achieved by cultivating a motivated team of dedicated professionals. It is understood that to meet the return objective of the fund, investment risks must be assumed.

B. General Policies:

- 1. All transactions undertaken on behalf of SMRS shall be for the sole benefit of plan participants.

2. All BOI investment personnel (including the State Treasurer and external investment service providers) involved in the investment process shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, in accordance with P.A. 314, or as otherwise stated in the investment policy, or their contract.
3. All BOI investment personnel (including the State Treasurer and external service providers) involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create or appear to create a conflict of interest in their unbiased involvement in the investment process.
4. Investments shall be made without distinction between return generated from income as opposed to capital gains. Diversification, need for liquidity, and the potential for gain and loss will be monitored on an on-going basis.
5. The allocation of assets among various asset classes shall be approved (as set forth herein in Section IV) by the State Treasurer. The Asset Allocation Policy and Objectives (the Asset Allocation Policy) shall be predicated on the following factors:
 - a. the historical performance and risk measures of capital markets adjusted for the expectations of the future short and long-term capital market performance;
 - b. the correlation of returns and risk among the relevant asset classes;
 - c. the expectations of future economic conditions, including inflation and interest rate assumptions;
 - d. the projected liability stream of benefits and the costs of funding to both covered employees and employers; and
 - e. the relationship between the current and projected assets of the plan and the projected actuarial liability stream.
6. This Asset Allocation Policy will identify target allocations to the classes of assets SMRS can utilize and the ranges within which each can fluctuate as a percent of the total portfolio. This Asset Allocation Policy is expected to provide diversification of assets in an effort to maximize the investment return to SMRS consistent with prudent market and economic risk given the return objectives of the fund. Assets of SMRS are to remain invested at all times in either cash equivalents or other asset classes as designated by this Policy.

7. Professional investment management firms, which are registered investment advisors or which are appropriately exempt from registration under the Investment Advisers Act of 1940, as may be amended, may be retained, by the State Treasurer, to assist in managing SMRS assets. Investments shall be sufficiently diversified so as to reduce the risk of material losses. Each investment manager will function under a formal Investment Management Agreement (IMA) that delineates responsibilities and appropriate performance expectations. A formal set of investment guidelines and administrative requirements for management of each portfolio is to be provided to each manager. BOI investment personnel will review the investment performance of these managers against their stated objectives on a regular basis. Individual managers will be judged according to benchmarks, which reflect the objectives and characteristics of the strategic roles their portfolios are to fulfill. Other factors for consideration shall include, but not be limited to, fundamental changes in the manager's philosophy, changes in the manager's organizational structure, financial condition (including changes in total AUM), personnel, changes in fee structure, litigation, and regulatory enforcement actions brought against the manager. Investment managers may act at their own discretion provided that actions are in accordance with P.A. 314, this Policy, and the IMA.
8. The State Treasurer and the BOI, in accordance with this Policy, will allocate contributions within the component units of SMRS on an on-going basis to balance the overall asset allocation against targets when deviations occur because of capital market fluctuations. Such allocations may be made even if contributions to managers or asset classes have recently experienced poor performance, if investment personnel believe the future outlook to be favorable. If such poor performance is the result of an occurrence other than expected market-related volatility, then a reassessment of that investment shall be undertaken.
9. The State Treasurer may utilize the services of an investment consultant(s) for, among other things, performance review, asset allocation studies, risk budgeting, manager screening and selection, educational materials, and topical studies. The comments and recommendations of the consultant will be considered by the State Treasurer, as sole fiduciary, in conjunction with other available information for the purpose of making an informed and prudent decision.
10. The State Treasurer will utilize the services of a master custodian bank that will be responsible for holding SMRS assets; settling purchases and sales of securities; identifying and collecting income that becomes due and payable on assets held; and providing a management information/accounting system.
11. The State Treasurer may retain the services of a securities lending provider to generate additional return for SMRS at acceptable levels of risk. The program will be administered in accordance with the securities lending policy negotiated with the provider.

12. The State Treasurer shall retain the services of a proxy voting agent to vote proxies in accordance with the State of Michigan Retirement Systems Proxy Voting Policy.
13. Updated return projections and asset allocation will be developed approximately every two years. The information for these reviews shall come from BOI investment personnel, outside consultants, and investment managers, as retained.
14. It is the responsibility of the State Treasurer to administer the investments of SMRS at reasonable industry standard cost, being careful to avoid sacrificing quality and opportunity for gain. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs, and other administrative costs chargeable to SMRS, as well as incentive fees.
15. Any investment or any action pursuant to an investment for SMRS which is not expressly permitted under this Policy is not allowed unless submitted in writing, and formally reviewed and approved by the State Treasurer.
16. The State Treasurer will operate investments of SMRS in compliance with all applicable state and federal, laws and regulations concerning the investment of pension assets.
17. The State Treasurer shall retain the services of a divestment screening vendor to assist in its compliance with state divestment statutes prohibiting the acquisition of securities in companies with active business operations in state sponsors of terror.

IV. Asset Allocation Policy and Objectives

Based on the factors identified in the preceding General Objectives, Goals, and Policies, the State Treasurer has established strategic asset allocation targets and ranges on a market value basis as set forth below.

Ranges for each asset class are included in the Asset Allocation Policy to provide the State Treasurer, as sole fiduciary, with flexibility to adjust to market fluctuations and portfolio changes.

A. The five-year strategic asset allocation targets for MPSERS are provided below:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target</u>	<u>Ranges</u>	<u>Statutory Limit*</u>
Absolute Return	U.S. T-bills +4%	6.0%	0% - 12%	**
Core Fixed Income	Barclays U.S. Aggregate	10.5%	5% - 25%	
Cash / Short Term Fixed Income	U.S. 1 month T-bill	2.0%	1% - 10%	

Domestic Equity	S&P 1500	28.0%	20% - 50%	70%
International Equity	MSCI ACWI ex U.S.	16.0%	10% - 25%	
Private Equity	S&P 500 +3% lagged 1 quarter	18.0%	10% - 25%	30%
Real Estate / Infrastructure	NPI – 1.3%	10.0%	5% - 15%	
Real Return	U.S. CPI +5%	4.5%	0% - 10%	**
Opportunistic	Actuarial Assumption	5.0%	0% - 10%	**
Total Assets	Actuarial Assumption	100%		

B. The five-year strategic asset allocation targets for MSERS are provided below:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target</u>	<u>Ranges</u>	<u>Statutory Limit*</u>
Absolute Return	U.S. T-bills +4%	6.0%	0% - 12%	**
Core Fixed Income	Barclays U.S. Aggregate	10.5%	5% - 25%	
Cash / Short Term Fixed Income	U.S. 1 month T-bill	2.0%	1% - 10%	
Domestic Equity	S&P 1500	28.0%	20% - 50%	70%
International Equity	MSCI ACWI ex U.S.	16.0%	10% - 25%	
Private Equity	S&P 500 +3% lagged 1 quarter	18.0%	10% - 25%	30%
Real Estate / Infrastructure	NPI – 1.3%	10.0%	5% - 15%	
Real Return	U.S. CPI +5%	4.5%	0% - 10%	**
Opportunistic	Actuarial Assumption	5.0%	0% - 10%	**
Total Assets	Actuarial Assumption	100%		

C. The five-year strategic asset allocation targets for MSPRS are provided below:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target</u>	<u>Ranges</u>	<u>Statutory Limit*</u>
Absolute Return	U.S. T-bills +4%	6.0%	0% - 12%	**
Core Fixed Income	Barclays U.S. Aggregate	10.5%	5% - 25%	
Cash / Short Term Fixed Income	U.S. 1 month T-bill	2.0%	1% - 10%	
Domestic Equity	S&P 1500	28.0%	20% - 50%	70%
International Equity	MSCI ACWI ex U.S.	16.0%	10% - 25%	
Private Equity	S&P 500 +3% lagged 1 quarter	18.0%	10% - 25%	30%
Real Estate / Infrastructure	NPI – 1.3%	10.0%	5% - 15%	
Real Return	U.S. CPI +5%	4.5%	0% - 10%	**
Opportunistic	Actuarial Assumption	5.0%	0% - 10%	**
Total Assets	Actuarial Assumption	100%		

D. The five-year strategic asset allocation targets for MJRS are provided below:

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target</u>	<u>Ranges</u>	<u>Statutory Limit*</u>
Absolute Return	U.S. T-bills +4%	6.0%	0% - 12%	**
Core Fixed Income	Barclays U.S. Aggregate	10.5%	5% - 25%	
Cash / Short Term Fixed Income	U.S. 1 month T-bill	2.0%	1% - 10%	
Domestic Equity	S&P 1500	28.0%	20% - 50%	70%
International Equity	MSCI ACWI ex U.S.	16.0%	10% - 25%	
Private Equity	S&P 500 +3% lagged 1 quarter	18.0%	10% - 25%	30%
Real Estate / Infrastructure	NPI – 1.3%	10.0%	5% - 15%	

Real Return	U.S. CPI +5%	4.5%	0% - 10%	**
Opportunistic	Actuarial Assumption	5.0%	0% - 10%	**
Total Assets	Actuarial Assumption	100%		

*Additional statutory limitations may apply pursuant to Act 314 of 1965, as amended.

- (1) The State Treasurer shall not invest in more than 5% of the outstanding stock of any 1 corporation, or invest more than 5% of a system's assets in the stock of any 1 corporation, pursuant to the statutory limitation of P.A. 314, section 38.1134.
- (2) Investment in obligations shall not exceed 15% of the system's total assets, pursuant to the statutory limitation of P.A. 314, section 38.1137(1)(b).
- (3) Unless otherwise permitted in P.A. 314, the State Treasurer shall not invest in more than 5% of the outstanding obligations of any 1 issuer or in more than 5% of a system's assets in the obligations of any 1 issuer with the amount of the outstanding debt calculated at the original tranche level. Obligations shall include publicly issued and privately held debt.
- (4) Investments in small Michigan businesses shall not exceed 5% of the system's assets.
- (5) Investments in noninvestment grade securities, not otherwise qualified under P.A. 314, shall not exceed 15 percent of the system's total assets.
- (6) Investments in foreign securities shall not exceed 30%, pursuant to the statutory limitation of P.A. 314, section 38.1140k.
- (7) The State Treasurer shall not invest in more than 5% of the outstanding global securities of any 1 issuer and shall not invest in more than 5% of the system's assets in the global securities of any 1 issuer, pursuant to the statutory limitation of P.A. 314, section 38.1140k(1)(a), (b).
- (8) Investments not otherwise qualified under P.A. 314, shall not exceed 30%, pursuant to the statutory limitation of P.A. 314, section 38.1140d.
- (9) Private equity shall not exceed 30%, pursuant to the statutory limitation of P.A. 314, section 38.1139a, with an additional 5% allocated to assets in Michigan private equity.
- (10) Investments in derivative securities shall not exceed 15%, pursuant to the statutory limitation of P.A. 314, section 38.1140j.

** **Absolute return, real return, and opportunistic** investments are diverse and must be evaluated independently to determine whether these investments should be categorized as private equity, real property, or under Section 20d as an investment not otherwise qualified under P.A. 314.

Asset Class Definitions and Strategic Roles

Absolute Return – Investments representing ownership interest in hedge funds managed to an overall risk tolerance and including acceptable leverage levels. Diversification by fund and by strategy, such as, but not limited to, long/short equities, arbitrage, and event-driven strategies. Absolute Return strategies seek to produce return patterns over time

that have a lower level of correlation with equities and other traditional asset classes. The investments may be made through partnerships or other legal entities, as standard industry practice.

Cash/Short Term Fixed Income – Investments in fixed income securities with maturities of less than one year including, but not limited to, Treasury bills and notes, commercial paper, bankers acceptances, certificates of deposit, and asset backed securities.

Equities – Diversified portfolio of investments to include public, preferred stock, convertible to stock, options, futures, or other derivatives on stocks or composites of stocks, units, participation or partnership shares which represent ownership interests in an underlying investment (excluding real property). Investment in Real Estate Investment Trusts (REITs) shall be classified as equities unless managed by the REID, which they will then be considered as real estate. Strategies will be segmented into domestic equities and international equities.

Fixed Income – Diversified portfolio with maturity greater than one year of investments representing instruments with obligated fixed or floating rates of interest to include public and private securities, mortgages, and investments in life insurance general accounts and guaranteed investment contracts, and options, futures or other derivatives on fixed income securities or fixed income components. The portfolio is designed to primarily diversify assets, protect principal and generate cash flow.

Real Estate – Diversified portfolio of investments representing ownership interest in partnerships, publicly-traded securities, operating companies, or other vehicles that represent equity and/or mortgages in real estate including, but not limited to, commercial, retail, hotel, industrial, residential, land, infrastructure, or other real estate related investments. Investments may include investments in public or private real estate operating companies and non-traditional property types or other real estate related investments. The portfolio is expected to provide diversification from traditional capital market risk. The real estate portfolio shall be diversified by property type and geography, and may include the use of leverage. The investments are typically made through partnerships or other legal entities, as standard industry practice.

Real Return – Real Return can include such diverse individual strategies as commodities, timber, floating rate notes, or a portfolio including a variety of asset classes managed tactically or strategically to achieve a real return goal. They are included in the portfolio to provide an inflation hedge or opportunistic tactical or strategic asset class exposure. Examples of additional individual strategies include, but are not limited to, TIPS, floating rate debt, and commodity futures. The investments may be direct or made through partnerships, or other legal entities, as standard industry practice.

Opportunistic – Diversified portfolio of investments representing ownership interest in partnerships, publicly-traded securities, operating companies, or other vehicles that represent equity and/or debt. Investments may include strategies across all asset classes, or a portfolio including a variety of asset classes managed tactically or strategically that may not meet a specific mandate. The portfolio is designed to provide an opportunistic

tactical or strategic asset class exposure, and/or provide diversification from traditional capital market risk.

Private Equity – Investments representing ownership interest in partnerships and other vehicles including, but not limited to, venture capital, leveraged buyouts, mezzanine debt, and special situations. The portfolio will consist of domestic and international partnerships, as well as private and public securities which may be the result of distributions. Private equity investments shall be well diversified by sub-asset class (e.g. venture capital vs. buyouts), investment style (e.g. early vs. late stage, mid market vs. large cap market), and vintage year.

V. Goals and Performance Objectives

The investment performance of the fund will be measured against objectives for the total SMRS and component units and against objectives for individual portfolio components (asset classes and individual managers). Investment performance shall be measured no less than quarterly. Because capital markets fluctuate, and given the length of the duration of the liability stream, the performance relative to objectives and goals is to be judged over a period of a market cycle as well as standard annualized periods of one, three, five, seven, and ten years. Greater emphasis is placed on intermediate and long-term results.

A. Performance Objectives for Individual Components

It should be noted that peer universes may only be available for these comparisons on a gross-of-fees basis. This should be considered when evaluating SMRS returns. In addition, benchmark and peer data may change from time to time as the market/industry evolves.

1. Domestic Equities
 - Exceed the total return of the S&P Composite 1500 net of fees for one, three, five, seven, and ten-year periods and a market cycle.
 - Rank above median in a public plan universe of domestic equity investments.
 - Rank above median in a universe of managers possessing a similar market cap and style characteristics.
2. International Equities
 - Exceed the total return of the MSCI All Country World Index ex-U.S. net of fees for one, three, five, seven, and ten-year periods and a market cycle.
 - Rank above median in a public plan universe of non-U.S. equity investments.

- Rank above median in a universe of managers possessing a similar market capitalization, style, and geography characteristics.
3. Private Equity

Exceed the S&P 500 Index by 300 basis points net of fees lagged by three months over one, three, five, seven, and ten-year periods and a market cycle.

Rank above median in a public plan universe of private equity investments.
 4. Absolute Return

Exceed U.S. T-bills by 400 basis points net of fees over one, three, five, seven, and ten-year periods and a market cycle.

Exceed the appropriate HFN Fund of Funds median net of fees over one, three, five, seven, and ten-year periods and a market cycle.

If available, rank above median in a public plan universe of hedge fund investments.
 5. Real Return

Exceed the increase in the U.S. CPI by 500 basis points annually net of fees over one, three, five, seven, and ten-year periods and a market cycle.

If available, rank above median in a nationally recognized universe of managers possessing a similar style.
 6. Opportunistic

Exceed the actuarial rate of return.
 7. Real Estate

Exceed the NPI over the one, three, five, seven, and ten-year periods and a market cycle, less 130 basis points. Meet or exceed the NCREIF-ODCE over one, three, five, seven, and ten-year periods and a market cycle.

If available, rank above median in a public plan universe of real estate investments.
 8. Fixed Income

Exceed the Barclay's U.S. Aggregate Index, net of fees for one, three, five, seven, and ten-year periods and a market cycle.

Rank above median in a public plan universe of fixed income investments.

Rank above median in a nationally recognized universe of managers possessing a similar duration and credit exposure.

VI. General Investment Manager Guidelines and Requirements

- A. Purchases and sales, security selection, and portfolio implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with SMRS investment policies, individual contracts, and P.A. 314. If a commingled vehicle or mutual fund is utilized, the investment policies of that fund shall be considered the operative policy document.
- B. Purchases of any securities or execution of any transaction not authorized by P.A. 314 are prohibited.
- C. Transactions that involve a broker acting as a “principal” where such broker is also the investment manager who is making the transaction are prohibited. Brokers acting as investment managers are limited to “agency” transactions.
- D. Transactions shall be executed at a reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.
- E. All investment managers shall comply with reporting requirements imposed by P.A. 314 or through investment management agreements and side letters
- F. All BOI investment personnel and DTMB employees who are subject to the BOI’s Investment Personnel Supplemental Code of Ethics and Standards of Conduct shall annually affirm adherence to P.A. 314; the Standards of Conduct for Public Officers and Employees Act, 1973 PA 196; Michigan Civil Service Rules governing gifts, disclosure, and travel; CFA Institute Code of Ethics and Standards of Professional Conduct; the Michigan Department of Treasury Policy on Ethical Conduct and Supplemental Employment; and the BOI Investment Personnel Supplemental Code of Ethics and Standards of Conduct; the BOI Prohibition of Insider Trading Policy and corresponding Frequently Asked Questions.
- G. Prior to becoming a service provider, investment managers shall certify that no political contributions that violate Section 13e of P.A. 314 have been made to a governmental official who could influence the award of pension contracts and shall agree to inform the State Treasurer if the statement should no longer be accurate.
- H. All investment managers will be expected to provide the BOI, the custodian, and their investment consultant, on a timely basis each quarter, such data as is required for proper monitoring.
- I. The use of index futures (or other derivatives) is permitted to achieve (but not limited to) the following:

1. To reduce the opportunity cost caused by “cash drag” in a rising market.
 2. To decrease the transaction costs of trading without increasing the risk (volatility) of that component of SMRS.
 3. To increase the manager’s flexibility in meeting the performance objectives set forth for them within defined investment style and strategy constraints.
- J. Derivatives must be used in accordance with P.A. 314.
- K. The REID portfolio may (through various legal structures) invest in properties located outside the United States.
- L. Performance objectives are to be met on a net-of-fees basis.
- M. All guidelines must be adhered to by internal and external managers. Investments contrary to the guidelines but deemed prudent by an investment manager must be approved by the State Treasurer or by an authorized representative of the State Treasurer.
- N. Investment managers must comply with state laws prohibiting the State Treasurer from investing public monies in companies engaged in active business operations in countries designated as a state sponsor of terror by the United States Secretary of State. The BOI will provide investment managers with a list of prohibited companies each quarter. Investment managers must refrain from acquiring securities in companies that appear on the lists and divest if directed by the BOI.
- O. Investment managers and investment service providers must comply with federal and state Pay-to-Play Rules placing limits on political contributions made to governmental officials who could influence the award of investment contracts.

VII. Other Policies

A. BOI Prohibition of Insider Trading Policy

Buying or selling securities while aware of material non-public (inside) information concerning the issuer of the securities, or improperly disclosing to others such inside information, may constitute fraud under federal and state securities laws and a violation of other legal and regulatory requirements. Inside information also includes information that any BOI investment personnel or DTMB affiliate may have concerning SMRS securities positions or trading.

The BOI has a Prohibition of Insider Trading Policy that provides a process for guarding against violations of state, federal, and foreign securities laws that prohibit insider trading. To this end, the BOI maintains and regularly updates a list of securities that BOI investment personnel and DTMB affiliates may not personally trade because the BOI has identified the securities as inside information. These securities are maintained through

the Personal Trade Approval System (PTAS). Before executing trades for personal accounts, including those of household members and accounts over which the individual exercises investment discretion, the PTAS must be consulted to see if the security is restricted. This process is intended to prevent misuse of material, nonpublic or inside information. All personal trades must be disclosed quarterly to the Chief Operating Officer. The policy also creates procedures designed to prevent the sharing of insider information between public and private market investment division investment personnel. All internal portfolios will be managed in compliance with the BOI Prohibition of Insider Trading Policy.

B. State of Michigan Retirement System Proxy Voting Policy

The State Treasurer considers the active voting of proxies an integral part of the investment process that serves the interests of shareholders and advances good corporate governance. As such, the State Treasurer endeavors to timely vote proxies in all shareholder meetings where the SMRS is a shareholder and entitled to vote. In furtherance of this endeavor, the State Treasurer has adopted the SMRS Proxy Voting Policy, which is periodically reviewed and revised as needed by the BOI's Compliance and Corporate Governance Division to reflect changes in state law and emerging trends in corporate governance. The State Treasurer has retained a proxy voting agent to vote all shareholder ballots in accordance with the Proxy Voting Policy. The BOI retains the ability to manually vote any proxies at all times so that the best interests of the SMRS members and beneficiaries are served. Greater scrutiny may be directed to shareholder meetings with ballot issues believed to impact the long-term investment strategy of the SMRS.

C. Ethics

Investment personnel and DTMB affiliates are held to the highest ethical standards and must comply with a number of directives aimed at ensuring integrity at the BOI. All investment personnel and DTMB affiliates must conduct themselves in a way that promotes public confidence in the retirement systems managed by the State Treasurer. The BOI fulfills this directive by following and adhering to ethical guidelines established by P.A. 314; Standard of Conduct for Public Officers and Employees; Michigan Civil Service Rules; CFA Institute Code of Ethics and Standards of Professional Conduct; and the BOI Prohibition of Insider Trading Policy. Each year, all investment personnel and DTMB affiliates must affirm adherence to these policies, statutes, guidelines, and directives by signing an annual affirmation. Violations or suspected violations of any of these policies, statutes, guidelines, or directives must be immediately reported to the Chief Operating Officer.

Members of the Investment Advisory Committee are also required to sign a Code of Ethics and Standards of Conduct that define the ethical and behavioral guidelines within which all members of the IAC are expected to conduct themselves while serving as members of the IAC. Signed copies are maintained on the BOI's Web site.

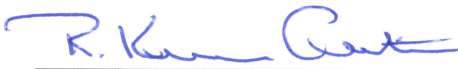
D. Divestment

Michigan law prohibits the State Treasurer from acquiring securities of companies with active business operations in countries designated as state sponsors of terror. P.A. 314 requires that the State Treasurer quarterly review its internal and external holdings to ensure no public monies are invested in companies engaged in active business operations in Cuba, Iran, Sudan, and Syria. The BOI contracts with a third-party vendor that creates lists of scrutinized companies using statutory factors. Consistent with the statute, the BOI engages with companies where the SMRS is a shareholder. If engagement is not successful then the SMRS must divest its holdings in the company in accordance with a statutory divestment schedule.

VIII. Review and Modification of Investment Policy Statement

The State Treasurer, as sole fiduciary and in collaboration with BOI investment personnel, will review the Policy approximately every two years to determine if modifications are necessary or desirable. The most current Investment Policy Statement shall be made available to the public on the BOI Web site.

Approved:

By: 
(Signature)

11/6/14
(Date)

R. Kevin Clinton
State Treasurer