



# **Investment Policy Statement**

*Adopted  
April 2012*

# Statement of Investment Policy

## Purpose

The purpose of this document is to define the investment objectives of The Public Employees' Retirement System of Mississippi (PERS) in order to assist the Board and staff in effectively managing PERS assets. This statement establishes the policies and describes the organization and objectives of the PERS' investment program in accordance with Section 25-11-121 of the Mississippi Code 1972, *Annotated*. In addition, it establishes a framework for monitoring investment performance, and promoting effective communication between the Board, investment staff, consultants and the external investment managers. This policy provides a framework which allows sufficient flexibility to take advantage of investment opportunities, while setting reasonable parameters to ensure prudence and care in the execution of the investment program.

## Background

The Public Employees' Retirement System of Mississippi was established by the State legislature for the purpose of providing retirement benefits to all employees of public entities in Mississippi. The System also administers the Mississippi Highway Safety Patrol Retirement System, the Supplemental Legislative Retirement Plan, the Municipal Retirement Systems of Mississippi, the Governmental Employees' Deferred Compensation Plan & Trust and the Optional Retirement Plan. This responsibility includes the investment of plan assets and the selection of investment options offered within the defined contribution plans administered.

The Public Employees' Retirement System of Mississippi is committed to insuring secure retirement benefits are available for its current and future retirees through the prudent investment of its assets.

## Investment Objectives

The primary objective of the investment program is to ensure that PERS meets its financial responsibilities to provide stable benefits for its members. As such the investment program strives to:

- a) Achieve a real rate of return of 4.5% over long periods (approximately 30 years).
- b) Generate at a minimum the actuarial assumed rate of return on investments. Currently that rate is 8%.

- c) Earn the total return on assets that can be realistically achieved while operating in accordance with all applicable legal restrictions, given existing market conditions and within prudent risk parameters in order to minimize the variability of future contributions.
- d) Preserve principal and protect the investment portfolio from a severe depreciation in asset value during adverse market conditions. Broad diversification of assets and a review of associated risks will be employed toward this objective.
- e) Ensure adequate liquidity is available to meet all benefit payments and other cash requirements.
- f) Maintain a reasonable degree of total portfolio risk through diversification by asset class, investment approach and by individual investments within asset classes.

### **Investment Constraints**

- a) **Laws and Regulations**

In addition to defining the investment function and allowable investments of PERS, the Mississippi Code also sets forth the fiduciary responsibility of the Board in carrying out its duties with respect to the PERS investment program. This Investment Policy Statement includes and is subject to all restrictions and guidelines set forth in the Mississippi Code of 1972, Ann.

- b) **Time Horizon**

Retirement systems such as PERS are considered perpetual investors. PERS assumes the appropriate investment time horizon for a public pension plan to be thirty (30) years. However, the impact of annual performance is considered as an input in the actuarial evaluation process.

- c) **Liquidity Requirements**

PERS has a negative annual cash flow, which is common in mature retirement plans. As such, liquidity is a factor that must be considered in designing the investment structure.

- d) **Risk Considerations**

In addition to its fiduciary obligations and statutory requirements the Board must consider PERS' purpose; financial condition; liquidity

needs; sources of contributions, and income in determining the appropriate levels of risk within the investment program.

## **Roles and Responsibilities**

### **Board of Trustees**

PERS' investment activities are governed by a ten member Board of Trustees which is responsible for directing the investment program in accordance with the laws of the State of Mississippi. As fiduciaries of a public pension fund the PERS trustees rely heavily on internal staff, consultants, actuaries and other contracted service providers to assist them in this process.

The Board is responsible for:

1. Approval of long-term risk tolerance and asset allocation decisions.
2. Approval of all formal investment policies.
3. Determination of investment structure within the asset allocation policy structure.
4. The retention and termination of external managers, consultants and custodial banks.
5. Maintaining the PERS Investment Policy Statement.

Information and recommendations related to all investment program activities and policies are provided to the Board of Trustees by the investment staff and consultant to aid in the decision making process.

### **Executive Director**

The Board employs the Executive Director who is responsible for ensuring PERS has in place the appropriate resources, training opportunities, and compensation structures to attract and retain a competent and qualified investment staff.

### **Investment Staff**

The Chief Investment Officer (CIO), as head of the investment staff, is charged with maintaining the integrity of the investment program. This responsibility includes working directly with the Board on the development of investment policy, asset allocation decisions, portfolio structure, investment manager/consultant selection and termination, and custodian selection.

The investment staff is responsible for insuring the Board's investment policies are implemented, and for oversight of the external investment managers. Staff is charged with providing advice and recommendations to the Board on all

investment matters, and to discharge their investment duties solely in the interest of the members and benefit recipients of PERS.

It is the responsibility of staff to make all necessary information available to the Board members to assist them in making prudent, informed investment decisions. The staff also should ensure adequate Global Investment Policy Standards (GIPS)<sup>®</sup> compliant performance reporting schedules are in place in order to facilitate the Board's monitoring of the investment program.

#### Investment staff:

- (1) Oversees the investment consultant and custodial bank relationships.
- (2) Monitors investment manager's compliance to the guidelines established in their Investment Management Agreements (IMA) with PERS.
- (3) Meets and/or communicates with external managers quarterly to review investment strategies and results.
- (4) Interacts with legal and tax counsel on investment related issues.
- (5) Develops Investment Committee meeting agendas.
- (6) Coordinates investment related Board education.
- (7) Recommends investment program enhancements for Board consideration.
- (8) Implements the adopted portfolio rebalancing policy
- (9) Invests the short term account assets to ensure monthly benefit payrolls are funded
- (10) Oversees the PERS securities lending and commission recapture programs.

#### **Investment Consultant**

The investment consultant is charged with assisting staff in providing advice and recommendations to the Board on all investment matters, and to discharge their investment duties solely in the interest of the PERS members and benefit recipients. The consultant's responsibility is to work with the Board and staff to assist in the prudent management of the investment process.

The consultant will attend all investment related meetings of the Board and will provide an independent prospective on PERS' investment goals, structure performance and managers. The consultant will review asset allocation, manager structure and performance and make recommendations to the Board as appropriate. The consultant assists in the manager search process. The consultant will also assist in keeping the Board informed as to changes within the pension and investment communities that could affect PERS.

## **Investment Managers**

External investment managers are retained because of their skill and expertise within a specialized part of the PERS portfolio. Each investment manager is charged with managing the assets and the allocation of the assets within his/her control in compliance with the policies, guidelines and objectives included in their Investment Management Agreement with PERS.

Investment managers will construct and manage investment portfolios which are consistent with the investment philosophy and disciplines for which they were hired. All investment managers provide periodic reporting as directed by the investment staff.

Each investment manager will act as a fiduciary to PERS. Further, each will be responsible for achieving best execution in all trades including foreign exchange transactions. Trades must meet the test of best execution as defined under Section 28(e) of the Securities and Exchange Act of 1934.

## **Custodial Bank**

The custodial bank is responsible for settling all security trades as authorized by the investment managers. The bank will also maintain accurate records of all transactions related to investment activity. The custodial bank will serve as trustee of all assets within its control. It will also be responsible for capturing and recording all monies due to PERS from investment activities and investment income. The custodial bank also is responsible for all PERS securities lending activities, income collection and record keeping.

## **Policy Review**

### **Portfolio Review and Evaluation**

The Board will review and evaluate at least quarterly, reports on the investment performance of the PERS' portfolio. These reviews will be conducted for each investment manager portfolio, as well as, at the total fund level. Performance reports will be generated by the investment consultant and will include performance data, asset allocation and peer group comparison information. The Board will place greater emphasis on long-term rather than short-term results.

The Board recognizes that though its investments are subject to short term volatility, it is critical that a long term investment focus be maintained. This prevents ad hoc revisions to its philosophy and policies in reaction to either

speculation or short term market fluctuations. In order to preserve this long term view the Board utilizes the following formal review schedule:

| <b><u>Formal Review Agenda Item</u></b> | <b><u>Review Schedule</u></b> |
|-----------------------------------------|-------------------------------|
| Total Fund Performance                  | Quarterly                     |
| Broad Asset Allocation                  | At least every five years     |
| Manager Structure                       | At least every three years    |
| Investment Policy                       | Annually                      |

## **General Investment Strategy Statement**

### **Strategic Objective**

The objective of PERS is to seek to provide financial security for our members, retirees and beneficiaries. The Board's strategic investment objectives are to maximize total return on assets, preserve principal and to attain competitive investment results. By achieving the strategic objectives the Board seeks to be able to provide adequate benefits and maintain stable contribution rates.

### **Implementation**

The strategic asset allocation of assets is the primary tool for reaching the investment objectives. The asset allocation decision is based on an evaluation of both expected returns and risk levels for the allowable asset classes. In making the asset allocation decision the Board must strike a balance between the desired level of risk and return. The result of the asset allocation decision should be a well diversified portfolio which reflects both the Board's desired level of return as well as the Board's risk tolerance level for the portfolio.

### **Rebalancing**

The Board will adopt a rebalancing policy at the time a strategic asset allocation policy is adopted. Staff will be responsible for implementing the rebalancing activity as contained in the policy.

## **Standard of Care**

The standard of care which governs members of the Board of Trustees is the prudent person standard. This standard requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise of similar character and with similar aims.

## **Ethics and Conflicts of Interest**

- All Board members are fund fiduciaries with a duty of loyalty to PERS and responsibility to observe the exclusive benefit rule.
- All members of the Board, Executive Director and investment staff will disclose any conflict of interest related to PERS investments.
- All investment managers, consultants and custodial banks shall be required to disclose all third-party relationships, which in any way involve payment of fees, shared fees or any “soft dollar” exchanges not otherwise disclosed.
- Upon request, each investment manager and consultant will disclose its ethics policy to the Board.



Appendix A  
PERS of Mississippi  
**Strategic Asset Allocation Policy**

## Strategic Asset Allocation Policy

*Adopted June 2010*

The primary method utilized in achieving the return objectives for PERS is the allocation of assets. The Board adopts an asset allocation policy as the framework to insure the assets are invested in a prudently managed and well diversified portfolio designed to meet the established return targets. The strategic target allocation below is intended to accomplish the Board's objectives over time. In addition to the target allocations the Board has established target ranges for the each asset class. These ranges provide the Board and staff the latitude to exercise management discretion in a tactical manner as appropriate.

| <b>Strategic Asset Allocation</b> | <b>Target</b> | <b>Rebalancing Ranges</b> |
|-----------------------------------|---------------|---------------------------|
| Public Equities                   | 52%           | ±4%                       |
| Private Equity                    | 5%*           | ±5%                       |
| Real Estate                       | 10%*          | ±7.5%                     |
| Fixed Income                      | 27%           | ±5%                       |
| Cash Equivalents                  | 1%**          | ±1%                       |
| Absolute Return                   | 5%*           | ±5%                       |

\* Because the real estate, absolute return and private equity program are relatively new and take time to fully implement, each will be phased in as capital can be committed and invested. Until private equity capital can be invested the assets will be invested in public equities. The real estate and absolute return capital will be split between public equity and fixed income until it can be invested.

\*\* Cash equivalents are the assets in the Short Term account used for benefit payments.

The current long term performance measurement for each asset class is as follows:

| <b>Asset Class</b> | <b>Benchmark</b>            |
|--------------------|-----------------------------|
| U.S. Equities      | Russell 3000 Index          |
| Non U.S. Equities  | MSCI ACWI ex U.S. IMI Index |
| Private Equity     | S&P 500 +5%                 |
| Fixed Income       | BarCap Aggregate Index      |
| Real Estate        | NCREIF Property Index       |
| Cash Equivalents   | 30-day U.S. T-bills         |
| Absolute Return    | 8% (PERS assumed ROR)       |

Appendix B

PERS of Mississippi

**Investment Strategy for Public Equities**

## Investment Strategy Statement for Public Equities

### Strategic Objective of Investing in Public equities

The strategic objective of investing in publicly traded equities is to maximize the long term, total return on assets.

### Implementation:

The strategic objective will be met by investing in a mix of the following:

- U.S. large, mid, all and small capitalization portfolios
- Non-U.S. large cap developed market, emerging markets and small capitalization portfolios
- Global portfolios
- Both active and passive strategies will be utilized.

The current public equity target allocations are as follows:

|                               |           |
|-------------------------------|-----------|
| U.S.-large, mid, all cap      | 31%       |
| U.S.-small cap                | <u>4%</u> |
| Total U.S.                    | 35%       |
| <br>                          |           |
| Non-U. S.–large, mid, all cap | 31%       |
| Non-U.S.-small cap            | <u>4%</u> |
| Total Non-US Developed        | 35%       |
| <br>                          |           |
| Emerging Markets              | 15%       |
| <br>                          |           |
| Global                        | 15%       |

The performance goal of the public equity portfolio is exceed the return, while emulating the characteristics of the public equity benchmark (MSCI AWCI). The portfolio will be structured so that no one factor will dominate over other factors relative to the benchmark. Factors include investment style (e.g. growth and value), capitalization, industry sector, individual security and region.

Appendix C

PERS of Mississippi

**Investment Strategy for Private Equity**

## **Investment Strategy Statement for Private Equity**

### **Strategic Objective of Investing in Private Equity**

The strategic objective of investing in private equity is to generate returns significantly in excess of those provided by publicly traded equities.

### **Implementation:**

The portfolio when fully implemented will consist of U.S and non-U.S. private equity investments. Private equity investments are long term in nature, illiquid and are expected to outperform public equity investments over long periods of time.

Investments in the private equity portfolio may include:

- Venture/Growth Capital
- Buyouts-large, mid, & small
- Mezzanine
- Distressed Opportunity
- Special Situations

The Board invests indirectly in these investments using fully discretionary investment advisors.

The current private equity target allocations are as follows:

|                    |           |
|--------------------|-----------|
| Buyout             | 58% - 78% |
| Venture Capital    | 10% - 23% |
| Special Situations | 13% - 28% |

Appendix D

PERS of Mississippi

## **Investment Strategy for Fixed Income**

## **Strategic Objective of Investing in Fixed Income**

The strategic objective of investing in fixed income is to diversify the portfolio and to generate income at levels of investment risk and return that fall between cash equivalents and equities.

### **Implementation:**

Portfolios of primarily high quality fixed income securities will be managed to exceed the returns of the BarCap Aggregate Index. The overall portfolio will be broadly diversified by sector, quality and maturity across the range of permitted fixed income investments. The portfolio will include both passive and actively managed accounts.

The current PERS fixed income portfolio includes TIPS, Emerging Market Debt, Core Plus and Core portfolios.

The long term fixed income portfolio target structure is as follows:

| <b><u>Sub Class</u></b> | <b><u>Target</u></b> |
|-------------------------|----------------------|
| TIPS                    | 20%                  |
| Emerging Markets Debt   | 8%                   |
| Core Plus               | 22%                  |
| Core                    | 25%                  |
| Global                  | 25%                  |



Appendix E

PERS of Mississippi

**Investment Strategy for Real Estate**

As adopted  
June 2011

# **PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF MISSISSIPPI**

## **REAL ESTATE PROGRAM GUIDELINES & PROCEDURES**

Revised 6/27/2011

### **I. REAL ESTATE INVESTMENT OBJECTIVES**

#### **A. INVESTMENTS IN REAL ESTATE**

In 2002 the Public Employees' Retirement System of Mississippi ("PERS") conducted an asset allocation study for its investment portfolio. This analysis demonstrated that over the long term, the inclusion of real estate investments would enhance the expected total portfolio investment characteristics.

All real estate investments will be made in a manner consistent with the fiduciary standards of the prudent person rule: (1) to safeguard and diversify the real estate portfolio, and (2) for the sole interest of the participants and their beneficiaries. The selection of Investment Managers/Funds and the development of investment policy will be designed to enhance diversification within the real estate program's portfolio, thereby limiting exposure to any one investment, organization, real estate property type or geographic region.

- 1. Real Estate Defined** - Real estate assets are defined as those investments that are unleveraged or leveraged equity or debt positions in commercial or residential real property; security interests in commercial or residential real property (including publicly traded real estate securities) or investments in timber producing properties. Based on State statutes, PERS will utilize commingled funds (including limited partnerships), and real estate securities for its real estate allocation, and will not directly own real property.

#### **B. ASSET ALLOCATION**

The PERS allocation to real estate will remain within the limits authorized by statute. The current target allocation is up to 10% of the PERS' total portfolio market value.

## C. PORTFOLIO RETURN OBJECTIVES

1. **Total Return**- Over rolling 3-year periods, the real estate investment portfolio is expected to generate a minimum total real rate of return (net of investment management fees) of 6% on core investments using a time-weighted rate of return calculation.

Over rolling 5-year periods, the real estate investment portfolio is expected to generate a minimum total real rate of return (net of investment management fees) of 8% on value added and timber investments using a time-weighted rate of return calculation. The inflation index used to calculate the actual real rate of return is the CPI-All Urban.

The return objective for public real estate securities is the National Association of Real Estate Investment Trusts (NAREIT) Equity Index or the public securities index that best represents the Investment Manager's investment style.

2. **Income Return** – Income should comprise at least 2/3 of the total return over rolling five-year periods from the core investments, and at least 1/2 from the value added investments.

## II. PROGRAM MANAGEMENT

### A. OVERVIEW

In compliance with the current investment philosophy, the Real Estate Investment Program will utilize: (1) discretionary commingled fund and limited partnership investment vehicles that are sponsored by real estate/timber investment managers, and (2) publicly traded real estate securities portfolios managed by investment managers.

### B. PARTICIPANT ROLES AND RESPONSIBILITIES

To facilitate the Real Estate Investment Program, each participant has clear lines of responsibility and accountability to ensure overall program compliance. The following describes each participant and its responsibilities:

1. **PERS Board of Trustees** (the "Board") - The investment governing authority of PERS.

**Responsibilities** - The Board with assistance from the Investment staff and consultant develops and approves portfolio level investment policy for all asset classes. The Board directs the pension investment allocation to real estate in accordance with the overall investment parameters of PERS. The Board monitors the real estate program to ensure compliance with

PERS' portfolio investment objectives. Specifically, the Board selects and approves real estate investment management organizations and funds; reviews quarterly performance measurement to ensure risk and return compliance; evaluates investment manager performance and cooperation during annual reviews, and approves the portfolio objectives and policies.

2. **PERS Investment Staff (“Staff”)** – PERS employees directly responsible for the implementation and administration of the Investment program.

**Responsibilities** – Staff provides portfolio level administration and supervision. This includes implementing investment policies and objectives; assigning special projects as requested by the Board and coordinating the schedule for quarterly performance measurement and annual investment manager reviews.

3. **Consultant** - Professionals retained to provide real estate advice and technical support.

**Responsibilities** - The Consultant coordinates the revision of the investment objectives, procedures and guidelines; develops the quarterly performance measurement report; assists in developing investment manager selection criteria; coordinates manager searches, and works with Staff on special projects.

4. **Legal Counsel** – Internal and external counsel retained by PERS to review program documentation to ensure compliance with statutes.

**Responsibilities** - Legal counsel reviews investment management and other related program documentation. Specific transactions may be acknowledged to ensure protection from undue liability and that PERS' rights are protected.

5. **Investment Manager** - Qualified real estate/timber organizations, typically registered as Investment Advisors under the 1940 Act, that provide institutional real estate/timber investment management services to the PERS.

**Responsibilities** - The Investment Manager, acting as a fiduciary on behalf of PERS, acquires, manages and disposes of real estate and/or timber properties in accordance with the contract or Limited Partnership Agreement (“LPA”). The Investment Manager retains appropriate property management expertise and hires suitable appraisal firms as specified in their investment product offering. The Investment Manager provides reporting as required in its contract to the Board, Staff and Consultant.

## C. INVESTMENTS AND RISK MANAGEMENT

PERS will manage the investment risk associated with real estate in several ways:

1. **Institutional Quality** - All assets in the core portfolio must be of institutional investment quality as evidenced by a precedent of institutional investment in similar properties; expert analysis which supports the economic viability of the market; high quality construction and design features; and a current or potentially competitive position within the property's immediate market area.
2. **Diversification** - The real estate portfolio shall be diversified by geographic region and property type. Diversification reduces the impact on the portfolio from any single one investment or manager style.
3. **Ownership Structure** – All real estate investments will be indirectly owned by PERS through commingled fund units, limited partnership interests or publicly traded shares of real estate operating companies.
4. **Leverage** - Leverage may be utilized to a limited degree by the commingled fund or limited partnership sponsors in order to enhance yields of the various investments and/or facilitate the diversification of the portfolio. Total portfolio debt will be limited to thirty percent (30%) on the core portfolio and up to seventy percent (70%) on the non-core portfolio. No portfolio leverage will be allowed for public real estate securities. However, the Investment Managers may invest in public real estate securities where the company has debt on its balance sheet. It is preferred that the Investment Manager responsible for investing in public real estate securities not purchase securities where the leverage exceeds a sixty percent (60%) loan to asset value ratio. Leverage at the total real estate portfolio level should be limited to a maximum of fifty (50%).

## D. PORTFOLIO COMPOSITION

The private real estate program will be comprised of two different, but complimentary components – core and non-core funds. While a clear distinction between these types of real estate investments can at times be difficult, the following definitions and real return objectives will apply.

1. **Core Portfolio** - Core investments include existing, substantially leased income-producing properties, held within a portfolio that exhibits reasonable economic diversification. Core properties within the designated Core commingled funds, therefore, should have most of the following characteristics:

- Existing properties that demonstrate predictable income flows with a high proportion of anticipated total return arising from current income and cash flow;
- At least 80% leased upon purchase of the asset;
- Located in a economically diversified metropolitan area;
- Credit quality tenants and a staggered lease maturity schedule;
- Quality construction and design features;
- Reasonable assurance of a broad pool of potential purchasers upon disposition;
- Properties requiring quality asset and portfolio management but not requiring specialized operating expertise which is not readily available in the market; and,
- Investment structures using all cash or limited leverage. Leverage is not to exceed 30% on the total portfolio.

**2. Non-Core**— Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise or skill to mitigate the business and leasing risk that may be associated with individual investments. These investments have greater associated volatility compared to core investments and as such provide expected yields higher than those associated with core investments.

- Properties located in secondary and tertiary markets, which are not economically diversified and may have accompanying susceptibility to imbalances of demand and supply;
- Property types including hotels, motels, senior housing, residential housing which require specialized management skills focusing primarily on operating business expertise rather than pure real estate management expertise;
- Properties which are considered to be in a “work out” mode;
- Properties involving significant appreciation, development, lease-up, development and/or re-development risks;
- Financing or investment structures that impact cash flows and/or require additional administrative expertise; and,
- Investment structures using leverage limited to 70% on the total portfolio.

**3. Public Real Estate Securities** - Public real estate securities include both public Real Estate Investment Trusts (REITs) and public Real Estate Operating Companies (REOCs). A REIT is a corporation or business trust that combines the capital of many investors to acquire income producing real estate. A REIT is generally not required to pay corporate tax if it distributes at least 90% of its taxable income to shareholders each year.

A REOC is also a public company whose primary business is the ownership and/or operation of commercial real estate properties, but which has not elected to be taxed as a REIT. REOCs are subject to corporate taxation and are not required to pay dividends. The System's objective for its real estate portfolio is income generation; therefore, investments in Public Real Estate Securities will be comprised primarily of REITs.

4. **Timber** – While not involving investments in commercial or residential property or buildings, timber investments do require the purchase of property. The land is owned for the express purpose of producing marketable forest products and services. Timber investments will be diversified so as to include trees of various types and growth stages. Timber investments should also be diversified across multiple geographic regions.
  
5. **Allocation Between Core, Non-Core, Timber and Public Real Estate Securities** - The Board has approved an Investment Plan which directs capital allocations into either Core, Non-Core, Timber, or Public Real Estate Securities predicated on the required return to PERS and current market yield expectations with the objective of minimizing risk while achieving targeted returns. PERS has set up target ranges to be achieved over time. The target ranges are as follows:

| <i>Strategy</i>                      | <i>Range</i> | <i>Target</i> |
|--------------------------------------|--------------|---------------|
| <b>Core</b>                          | 55% to 70%   | 60%           |
| <b>Non-Core</b>                      | 0% to 30%    | 15%           |
| <b>Timber</b>                        | 0% to 10%    | 10%           |
| <b>Public Real Estate Securities</b> | 0% to 30%    | 15%           |

### **III. REAL ESTATE INVESTMENT PROCESS**

#### **A. INVESTMENT MANAGER SELECTION**

In an effort to maintain program simplicity and ensure appropriate underwriting of investment management organizations, PERS shall utilize only Board approved real estate investment management firms and their sponsored funds for the acquisition, asset management and disposition of property. Each Investment Manager will be provided a specified capital allocation. Investment Manager capital commitments shall periodically be balanced in accordance with the overall real estate asset allocation objectives.

#### **B. COMMINGLED FUND AND LPA INVESTMENTS**

PERS will use the commingled fund and LPA vehicles for Core, Non-Core and Timber investments. Separate accounts are the preferred vehicle for Real Estate Securities due to the lower costs, enhanced strategic control. Selection criteria for commingled funds shall include minimally conflicted fee structures and maximum investor controls.

### **IV. CONTROL AND MONITORING**

In real estate investment, separate and distinct from other asset classes, the Investment Manager has direct control over the operations of the assets. This inherent potential conflict of interests creates a need for higher oversight standards by PERS. The Board shall be notified of Investment Manager reporting problems; significant organizational changes such as mergers, and prolonged under-performance. Core or Public Real Estate Investment Managers performing below expectations in any of the before mentioned areas shall be placed on the Watch List outlined below. All Investment Managers will be subject to an annual review and may also be called in by the Staff or the Board for a special review. PERS will manage the Real Estate Investment Program conflicts in the following manner:

#### **A. PROGRAM REPORTING & MONITORING**

- 1. Investment Manager Reviews** - At least annually, and as often as twice a year as determine necessary, Staff shall coordinate an Investment Manager review presentation for the Board. Each presentation will require a discussion as to how the investments managed on behalf of PERS have met the investment objectives of PERS. The Investment Manager's organization should also be reviewed. This monitoring system is designed to assist the Staff and Board in identifying troubled investments and changes at the organizational level that may suggest additional monitoring is required.



2. **Watch List** - The performance of the PERS' Core and Public Real Estate Investment Managers will be monitored on an ongoing basis. Upon the recommendation of Staff, Investment Managers may be placed on a Watch List or terminated.

Investment Managers may be terminated or placed on a Watch List for a variety of reasons: personnel changes; organizational changes; violation of policy and investment guidelines; style deviations; underperformance and asset allocation changes. PERS has two clearly stated performance objectives in the investment guidelines, the preservation of capital and consistent positive returns. There are various factors that should be taken into account when considering placing an Investment Manager on a Watch List or the termination of an Investment Manager. These can be separated into two broad categories - qualitative and quantitative factors. The former focuses on personnel, organizational and legal issues while the latter address performance.

3. **Investment Manager Fees** - Recognizing an inherent conflict of interest when fees are based on asset market values, and the manager is the source for the portfolio pricing, whenever possible, commingled funds' Investment Manager compensation shall not be based on a percentage of portfolio market value, but should instead be calculated as a portion of cost, asset book value, net operating income, or cash flow.

## **B. QUARTERLY REPORTING**

1. **Performance Measurement** - Within 45 days of the quarter close, the Investment Manager is required to submit to the Consultant an investment position work sheet and distribution worksheets for use in the calculation of performance figures for that period.
2. **Operations Report** - The Investment Manager shall revise financial statements quarterly comparing budgeted operations to actual investment performance. This analysis must be available at Staff's request within 60 days of the quarter close.

## **C. PROPERTY VALUATIONS**

1. **Appraisals** - Appraisals shall be conducted in accordance with the PERS approved Investment Manager contracts/LPAs. Staff, on behalf of the Board, reserves the right to obtain and review the list of appraisers and their qualifications. This review is for information and discussion purposes only and serves as a control and monitoring function. Otherwise, the Investment Manager may use its discretion to select and rotate qualified appraisal firms. Generally, PERS recommends the following appraisal policy for its commingled fund Investment Managers.

- a. **Commingled Funds** - Investment Managers sponsoring commingled fund or limited partnership vehicles in which PERS may own or consider acquiring an interest should include in the offering documents an appraisal policy such that independent MAI, Member of Appraisal Institute, valuations are conducted at least annually. This criterion may be relaxed in the specific case where the cost of appraisal is greater than the benefit received by the participants. However, if fees are paid based on “market value” of an investment, then in no case should annual independent MAI appraisals be waived.
2. **Performance Measurement** - For performance measurement purposes, both the MAI appraiser’s and the Investment Manager’s interim internal estimates of value will be used to calculate returns. Every year, the independent appraisals are to be provided by the Investment Manager in its performance measurement reporting.

#### D. **AUDIT PROCESS**

1. **Unrelated Business Income Tax** - As a tax-exempt entity, PERS should instruct its Investment Managers to avoid transactions generating UBIT.
2. **Audited Financial Statements** - On an annual basis, Investment Managers should be required to provide PERS with a combined audited financial statement for the total portfolio.

#### E. **ACCOUNTING**

1. **Accounting Policies** - All accounting data shall be computed in accordance with generally accepted accounting principles prepared on a current value basis, not historical cost accounting. Therefore, the carrying value of real estate assets shall be adjusted annually to reflect the most recent current value based on the most recent independent appraisal value. Accrual based accounting is also generally used to allocate revenues and expenses to the appropriate periods.

#### IV. **GUIDELINE REVISIONS**

This document is to be reviewed periodically and revised as appropriate. Revisions will be submitted to the Board for final approval.

Appendix F

PERS of Mississippi

**Investment Strategy for Cash Equivalents**

## **Strategic Objective of Investing in Cash Equivalents**

The strategic objective of investing in cash equivalents is to insure at least a minimal degree of yield is achieved on cash waiting to be invested in longer term assets or to be paid out as benefits.

### **Implementation:**

Cash remaining in any PERS account is automatically swept into the custodial bank GSTIF account at the close of each business day. While managers are encouraged to remain fully invested at all times, frictional cash is often part of their portfolios. Additionally, the PERS Short Term account used for funding payrolls is 100% invested in cash equivalent vehicles.

The Board guidelines for cash equivalent investments are as follows:

1. The highest yielding instruments commensurate within appropriate risks, maturity, and liquidity considerations will be selected.
2. Commercial paper investments short-term obligations must be of corporations with either no long-term debt or with long-term debt of A or better by Standard and Poor's Corporation or Moody's Investment Service and whose short-term obligations are of A-2 or P-2 or better ratings by Standard and Poor's and Moody's Investment Service respectively. Issues of bank holding companies and Savings and Loan Associations are not approved investments;
3. Funds may be deposited in Federally insured institutions domiciled in the State of Mississippi or at the System's custodial bank.
4. Repurchase Agreements must be adequately collateralized by obligations of the U. S. Government or its agencies that are purchasable by the System under state statutes. The market value of collateral must be equal to or greater than one hundred and two percent (102%) of the funds sold in any repurchase agreements. The market value of the collateral must be monitored daily to insure this ratio is maintained.

Appendix G

PERS of Mississippi

**Other Investment Related Policies**

## **Proxy Voting**

The PERS' Board charged its investment managers with the responsibility of voting proxies on PERS' behalf and in PERS' best interest. It is the intent of the Board to have proxies voted in a manner solely to protect the interest of its participants. As a general rule, proxies should be voted in such a manner as to avoid activity which would:

- Be detrimental to the long-term interests of the company,
- Excessively insulate present management from take-over or stockholder rejection,
- Reduce investment liquidity,
- Reduce shareholder interests.

Proxies are to be voted and submitted in adequate time for the proxy to be received by the appropriate corporate official. A record of the proxy voting positions taken by each manager should be reported to the PERS the 30th calendar day following quarter-end.

## **Securities Lending**

Lending securities to qualified borrowers enables PERS to realize incremental income on assets currently in the portfolio. This represents an opportunity to increase the return on the fund by reinvesting the income generated.

The custodial bank, as lending agent for PERS, is responsible for the lending and collateral reinvestment activities. All loans will have an initial collateral margin of 102% for U.S. securities and 105% for non-U.S. securities. At no time will the collateral margin be less than 100% of the current market value. Loaned securities will be marked –to-market daily to ensure collateral is maintained at the minimum required levels.

All collateral reinvestment will be done within the guidelines mandated in the Securities Lending Agreement and Guaranty.

## **Manager Watch List or Termination Guidelines**

Managers may be placed on a Watch List for either qualitative or quantitative factors.

### **Qualitative Factors**

Qualitative factors that may be grounds for being placed on a Watch List or terminated include, but are not limited to the following:

- Violation of investment guidelines
- Deviation from stated investment style
- Turnover of key personnel
- Change in ownership
- Litigation
- Failure to disclose significant information, including potential conflicts of interest.

The Board can place a manager on the Watch List at any time based on qualitative factors. Watch List status, based on qualitative factors, mandates closer monitoring of the manager’s organization. The Board will notify the manager of its decision to place the firm on a Watch List. At the end of six months the Board will reevaluate and decide what action, if any, to take.

**Quantitative Factors**

Quantitative factors pertain primarily to performance. The performance of the Plan’s investment managers is reviewed by the Board on a quarterly basis. Below are some of the factors to be considered in determining the appropriateness of placing an investment manager on a Watch List.

| PERFORMANCE TEST                                                                                             | BENCHMARK                                                                                | FAIL CRITERIA                                                                                            |
|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Test 1:<br>Performance relative to Market Index, for 4 consecutive quarters of rolling 3 year period returns | Annualized performance relative to the agreed upon market index or appropriate benchmark | Managers fail if they under perform their index or benchmark over 4 quarters of rolling 3 year periods.  |
| Test 2:<br>Performance relative to a peer group for 4 consecutive quarters of rolling 3 year periods returns | Performance compared to that of an appropriate peer group                                | Managers fail if their performance is below the 50% percentile over 4 quarters of rolling 3 year periods |

The Board will notify a manager of its decision to place them on a Watch List, and will require a written explanation for the manager’s underperformance. The manager will be informed that failure to show steady improvement in performance could result in termination, or a reduction of the assets managed for PERS.

The Board, at its discretion, can place a manager on the Watch List, or terminate a manager at any time with 30 days' notice.