Missouri Highway Transportation Employees & Highway Patrol Retirement System

Statement of Investment Policy, Objectives and Guidelines for Total Fund

July 2003

I. Purpose and Objectives

The primary objective of the Missouri Highway Transportation Employees & Highway Patrol Retirement System (Plan) is to provide active and retired employees with adequate retirement benefits. Assets will be invested in a diversified portfolio to achieve attractive real rates of return. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the plan's tolerance for risk as determined by the Board of Trustees in its role as fiduciary.

II. Parties Associated with the Plan

A. Board of Trustees (Board)

1. Holds ultimate responsibility for the Plan and the appropriateness of its investment policy and its execution.

2. Retains consultants, investment managers and other advisors to implement and execute investment policy as it relates to the Plan.

3. Reviews adequacy or need for change of this Statement.

4. Meets with investment managers at least annually and reviews quarterly reports concerning Plan asset management.

5. Administers and interprets the Plan.

6. Engages a custodian bank.

7. Adopts investment policy, objectives and guidelines for the Plan including risk tolerance.

8. Responsible for reviewing and voting on matters put forth by the Investment Committee.

B. Investment Committee

At the direction of the Board Chairman, an Investment Committee will be formed. This Committee will meet as often as necessary, and on call by the Investment Committee Chairman, Vice Chairman, Executive Director, or Assistant Executive Director. All Board members are invited to attend all Investment Committee meetings. In addition, the Executive Director and Assistant Executive Director and Consultants will attend Investment Committee meetings. The responsibilities of the Investment Committee, as directed by the Board, will include:

1. Review of investment policy and asset mix.

2. Review of manager and portfolio performance.

3. Review of custodian bank.

4. Review of investment consultant.

5. Other areas as directed by the Board.

The Investment Committee makes recommendations to the Board on investment related matters, and the Board will in turn vote on the action that should be taken by the Plan.

C. Investment Managers

1. Will have full discretion in the management of assets allocated to the investment managers, subject to the investment guidelines set by the Board.

2. Serve as fiduciaries, responsible for specific security decisions.

3. Will abide by duties, responsibilities and guidelines detailed in any specific investment manager agreement.

4. Communications with the Board and Investment Committee, at a minimum, will include:

   a) Quarterly written statements, including actions taken in the portfolio, the current outlook and expected changes in the portfolio.

   b) On a quarterly basis, performance results should be compared to the performance objectives outlined for the specific mandate located in Section IX, Mandate Specific Guidelines, of this document.

   c) Regular meetings with the Investment Committee and Board, with the location and time to be determined by the Investment Committee.

   d) All pertinent changes in the firm should be reported to the Investment Consultant and the Executive Director within two business days by phone and in writing. Included among the changes, but not limited to, are the following:

1. Changes in personnel.
2. Major changes in areas of responsibility.
3. Changes in assets gained or lost, as well as clients gained or lost.
4. Changes in investment philosophy, process or major strategies.

D. Custodian Bank

1. Accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured or called items; provides periodic accounting statements; and processes and maintains securities lending program. However the securities lending program may be outsourced at the Board's discretion to one or more third-party lenders.

2. Meets as required with the Board and provides reports relative to the status of the Plan's investments.

E. Investment Consultant

1. Assists Board in developing investment policy guidelines, including asset class choices, asset allocation targets, diversification and risk tolerance.

2. Provides Board with objective information on a broad spectrum of investment management specialists and helps construct a portfolio management team of superior investments managers.

3. Monitors the performance of the investment managers and provides regular quarterly reports to the Board, which will aid them in carrying out the intent of this Statement.

4. Reports recommendations and conclusions to the Board as required.

III. Investment Objectives and Guidelines

A. Policies

1. The Board has consciously diversified the Total Fund to ensure that adverse or unexpected results from a security class will not have an excessively detrimental impact on the entire portfolio. Diversification is interpreted to include diversification by type, by characteristic, and by number of investments as well as by the investment styles of the management organizations.

2. Investment management will be delegated to external professional organizations. The managers will operate within the set of guidelines, objectives and constraints, which are pertinent to their assignment.

3. The Board will follow the policy that, except for established guidelines and unusual circumstances, no restrictions will be placed on the selection of individual investments by the Plan's investment managers.

4. Proxies shall be voted by the Plan's managers in accordance with guidelines contained in the attached Appendix, Section I. Should voting issues or situations arise which are not covered specifically in the guidelines, or if policy clarification is needed by an investment manager, the Investment Committee should be considered as the source for such clarification.

B. Portfolio Asset Allocation Guidelines

The Trustees have adopted the asset allocation policy shown below for Plan assets. Target percentages have been determined for each asset class along with allocation ranges. Market conditions or an investment transition (asset class or manager) may require an interim investment strategy and, therefore, a temporary imbalance in asset mix.

	Minimum	Target	Maximum
Equity	50.0%	55.0%	60.0%
Fixed Income*	40.0%	45.0%	50.0%

* Fixed income includes timber, real estate and cash allocations.

Specific allocations within the equity and fixed income mandates are outlined below.

	Minimum	Target	Maximum
Large-cap equity is further defined as:			
Large-cap Growth Equity	6%	8%	12%
Large-cap Value Equity	6%	8%	12%
S&P500 Index	10%	14%	18%
Mid/Small-cap equity is further defined as:			
Mid-cap Growth Equity	1%	4%	7%
Mid-cap Value Equity	0%	2%	4%
Small-cap Value Equity	1%	4%	7%
International equity is further defined as:			
International Equity	10%	15%	20%
Fixed income (including timber, real estate and cash) is further defined as			
Intermediate Investment Grade	10%	12.5%	18%
Active Duration Inter. Inv. Grade	10%	12.5%	18%
Stabilized Fixed Income	6%	10%	15%
Timber	0%	3%	6%
Real Estate	2%	5%	10%
Cash	0%	2%	5%

Portfolio Rebalancing

Rebalancing to the above targets shall be made on a cash flow basis, as needed. Should the fund move outside the ranges beyond cash flow means of correcting, the Executive Director with the advice and consent of the Consultant will review the allocations and shall have the authority to bring the asset allocation back within allowable ranges.

C. Performance Objectives

The Plan's total return will be expected to provide equal or superior results, using a three-year moving average, relative to the following benchmarks:

1. An absolute return objective of the Consumer Price Index plus 4% compounded annually.

2. A relative return objective of 40% S&P 500, 10% Russell 2500, 10% EAFE, 34% Lehman Aggregate, 6% NCREIF.

3. A relative return objective of above median in a manager universe with comparable equity allocations.

4. Performance volatility objective (defined as standard deviation) of 40% S&P 500, 10% Russell 2500, 10% EAFE, 34% Lehman Aggregate, 6% NCREIF.

Manager Performance Evaluation

1. The Investment Consultant shall monitor the Investment Manager's performance on a monthly basis to ensure that the Investment Manager's performance is consistent with the performance required by the Performance Criteria described below.

2. The Investment Consultant, along with the Board, shall also conduct a formal evaluation of the Investment Manager each quarter. The quarterly evaluation shall include, but not be limited to, a review of the following:

   a) The Investment Manager's organizational structure, process and philosophy and personnel changes to ensure the consistency of these items over time.

   b) The Investment Manager's performance relative to the Performance Criteria described below.

   c) The Investment Manager's adherence to its specific style of management (i.e. growth, value, etc.).

   d) The Investment Manager's adherence to these Investment Guidelines.

3. An Investment Manager who fails to meet expectations in any of the areas mentioned in paragraphs 1 and 2 above may, at the Plan's discretion, be placed on a watch list.

An Investment Manager who meets these expectations can still be placed on a Watch List in the event of any material change including, but not limited to:

e) The Investment Manager is bought or sold.

f) There is a significant change in the Investment Manager's process or philosophy.

g) The departure from the Investment Manager of a portfolio manager or other key or responsible personnel.

h) Any pending litigation or SEC or other state or federal regulatory agency investigation or action.

i) The Investment Manager falls below the median in the designated peer group universe in a rolling three (3) year period, for two (2) consecutive quarters provided however, that until the Investment Manager has provided services to the System for three (3) years, a rolling one (1) year period shall be used.

General Watch List Procedure

1. The Investment Consultant shall provide a written report to the Board on a quarterly basis listing any Investment Managers who have been added to or removed from the Watch List during the preceding quarter as well as those Investment Managers who remain on the Watch List. This report shall also state the reasons why the Investment Manager was added to or removed from the Watch List, the status of the watch and any other relevant information relating to the matter. The Board can add or remove Investment Managers from the Watch List at its discretion.

2. If an Investment Manager is placed on the Watch List, as a courtesy to the Investment Manager the Board shall send a written notice to the Investment Manager stating that the Investment Manager has been placed on the Watch List and detailing the reasons why. The notice shall also state the duration of the Watch List period (usually 2 calendar quarters). The Investment Consultant shall closely monitor the Investment Manager during the Watch List period.

Termination

1. The Board has the power to terminate the Investment Manager, with or without cause and whether or not the Investment Manager appears on the Watch List, on thirty (30) days notice as provided in the Investment Management Agreement, and nothing in these Investment Guidelines should be read to limit that power. The Investment Manager may also be terminated for other reasons, including the reasons provided in paragraphs 2 and 3 below.

2. If the Investment Manager does not correct the Watch Problems during the Watch List period, the Investment Consultant may recommend to the Board that the Investment Manager be terminated. If the Board elects to terminate the Investment Manager, it shall send a notice of termination to the Investment Manager (pursuant to the terms of the Investment Management Agreement) stating that the Investment Management Agreement between the System and the Investment Manager shall be terminated on a date not less than thirty (30) days from the date of the notice.

3. Notwithstanding paragraph 2 above, if at any time (before, during or after the end of the Watch List period) the Board determines that the Investment Manager has not or cannot correct the issue(s) and as a result the Board desires to terminate the Investment Management Agreement with the Investment Manager, it shall send a notice of termination to the Investment Manager (pursuant to the terms of the Investment Management Agreement) stating that the Investment Management Agreement between the System and the Investment Manager shall be terminated on a date not less than thirty (30) days from the date of the notice.

IV. Hedging Policy

Background:

When investing in international stocks, a U.S. investor is exposed to changing values of the country's currency in which the U.S. investor has purchased securities. To protect against loss of value when the U.S. currency appreciates compared to the local currency, various techniques, called currency hedging, may be used to lessen or eliminate that risk of loss. The movements of world currencies are very difficult to forecast and are generally thought to balance out over long periods of time.

Policy:

The Plan will allow its international managers to hedge a portion of the international portfolio they manage for defensive purposes only. The purchase and sale of hedging vehicles will not be employed in an attempt to further enhance the portfolio beyond currency protection. Under no circumstances will leverage be introduced into the portfolio. Hedging to any other currency but the U.S. dollar is prohibited.

The portion of the portfolio hedged may never exceed the underlying value of the securities owned by the Fund in any particular country unless other countries trade as a currency block. The current total portion of the international portfolio that may be hedged will not exceed 50% unless further authorized by the Plan. Managers will be measured against unhedged benchmarks. The use of forward foreign exchange contracts are the only authorized vehicles to implement this hedging policy.

On a quarterly basis, the managers will report to Board any currently hedged currency positions and acknowledge compliance with the above guidelines.

V. Annual Review

In view of the rapid changes within the capital markets and investment management techniques, these guidelines will be reviewed by the Plan annually. Exceptions to these guidelines may be made anytime with the approval of the Investment Committee.

VI. Permissible Investments

This list represents the securities permissible for inclusion in the Fund under these Investment Guidelines. Additional securities may be added pursuant to review and recommendation by the Investment Committee, and approval by the Board.

<u>Equity Securities</u>
Common stock
Preferred stock
Convertible preferred stock
Private equity
American Depository Receipts (ADRs)
Real Estate Investment Trusts (REITs)
Equity hedge funds, and fund-of-funds strategies
144a securities

<u>Fixed Income Securities</u>
Government and Agency debt
Corporate bonds
Commercial paper
Mortgage backed securities
Asset backed securities
Money market instruments (including Short Term Investment Funds, STIF)
Inflation protected bonds (Treasury Inflation Protected Securities, TIPS)
High yield bonds
Convertible bonds
Private placement bonds
144a securities

<u>Other</u>
Commingled real estate vehicles
Timber
Exchange Traded Funds (ETFs)

VII. Mandate Specific Guidelines

S&P 500 Index Manager Guidelines

Investment Philosophy

1. The manager is expected to manage an index fund which replicates the characteristics and performance of the S&P 500 Index. Any significant deviation from the manager's stated style will require written approval from the Plan.

2. The manager is expected to replicate the performance of the S&P 500 Index with minimal tracking error.

Common Stock Guidelines

1. Cash should not exceed 2% of the portfolio.

2. Equity securities shall mean common stocks or equivalent (ADRs, issues convertible into common stocks, etc.)

3. Holdings in any one company are expected to replicate the actual allocation to each company in the S&P 500 Index.

4. No leverage will be allowed in the portfolio.

Performance

1. Manager performance shall be compared to the S&P 500 Index.

2. Performance will be reviewed for the following periods:

   a) Three months, year to date, one-, three-and five years.

   b) Rolling 12-month returns.

3. See Communications requirements II-C in General Policy and Objective Statement. (Page 2)

Large Cap Growth Equity Manager Guidelines

Investment Philosophy

1. Any significant deviation from the managers stated style will require written approval from the Plan.

2. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Common Stock Guidelines

1. Cash should not exceed 5% of the portfolio.

2. Equity securities shall mean common stocks or equivalent (ADRs limited to 15% of the portfolio, issues convertible into common stocks, etc.).

3. Equity investment in any one company may not exceed 10% of the market value of the portfolio.

4. Investment in equities of any one company that exceed 5% of its equity outstanding shall be brought to the immediate attention of the Board.

5. It is expected that the portfolio will be prudently diversified by industry.

6. No leverage will be allowed in the portfolio.

7. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

8. The weighted average market capitalization for the portfolio shall be within 30% of the weighted average market capitalization of the Russell 1000 Growth Index.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

   a) An unmanaged market index comprised of the Russell 1000 Growth plus 2% compounded annually.

   b) A relative return target of the top half of the Consultant's peer group of large capitalization growth equity managers.

2. Performance will be reviewed for the following periods:

   a) Three months, year to date, one-, three- and five years.

   b) Rolling 12-month periods.

3. See communications requirements II-C in General Policy and Objective Statement.

Large Cap Value Equity Manager Guidelines

Investment Philosophy

1. Any significant deviation from the managers stated style will require written approval from the Plan.

2. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Common Stock Guidelines

1. Cash should not exceed 5% of the portfolio.

2. Equity securities shall mean common stocks or equivalent (ADRs limited to 15% of the portfolio, issues convertible into common stocks, etc.).

3. Equity investment in any one company may not exceed 10% of the market value of the portfolio.

4. Investment in equities of any one company that exceed 5% of its equity outstanding shall be brought to the immediate attention of the Board.

5. It is expected that the portfolio will be prudently diversified by industry.

6. No leverage will be allowed in the portfolio.

7. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

8. The weighted average market capitalization for the portfolio shall be within 30% of the weighted average market capitalization of the Russell 1000 Value Index.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

    a) An unmanaged market index comprised of the Russell 1000 Value plus 2% compounded annually.

    b) A relative return target of the top half of the Consultant’s peer group of large capitalization value equity managers.

2. Performance will be reviewed for the following periods:

    a) Three months, year to date, one-, three- and five years.

    b) Rolling 12-month periods.

3. See communications requirements II-C in General Policy and Objective Statement.

Mid Cap Value Equity Manager Guidelines

Investment Philosophy

1. Any significant deviation from the managers stated style will require written approval from the Plan.

2. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Common Stock Guidelines

1. Cash should not exceed 5% of the portfolio.

2. Equity securities shall mean common stocks or equivalent (ADRs limited to 15% of the portfolio, issues convertible into common stocks, etc.).

3. Equity investment in any one company may not exceed 10% of the market value of the portfolio.

4. Investment in equities of any one company that exceed 5% of its equity outstanding shall be brought to the immediate attention of the Board.

5. It is expected that the portfolio will be prudently diversified by industry.

6. No leverage will be allowed in the portfolio.

7. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

8. The weighted average market capitalization for the portfolio shall be within 30% of the weighted average market capitalization of the Russell Mid Cap Value Index.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

    a) An unmanaged market index comprised of the Russell Midcap Value plus 2% compounded annually.

    b) A relative return target of the top half of the Consultant’s peer group of mid capitalization value equity managers.

2. Performance will be reviewed for the following periods:

    a) Three months, year to date, one-, three- and five years.

    b) Rolling 12-month periods.

3. See communications requirements II-C in General Policy and Objective Statement.

Small Cap Value/Core Equity Manager Guidelines

Investment Philosophy

1. Any significant deviation from the managers stated style will require written approval from the Plan.

2. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Common Stock Guidelines

1. Cash should not exceed 5% of the portfolio.

2. Equity securities shall mean common stocks or equivalent (ADRs limited to 15% of the portfolio, issues convertible into common stocks, etc.).

3. Equity investment in any one company may not exceed 10% of the market value of the portfolio.

4. Investment in equities of any one company that exceed 5% of its equity outstanding shall be brought to the immediate attention of the Board.

5. It is expected that the portfolio will be prudently diversified by industry.

6. No leverage will be allowed in the portfolio.

7. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

8. The weighted average market capitalization for the portfolio shall be within 30% of the weighted average market capitalization of the Russell 2000 Index.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

    a) An unmanaged market index comprised of the Russell 2000 Value plus 2% compounded annually.

   b) A relative return target of the top half of the Consultant’s peer group of small capitalization value equity managers.

2. Performance will be reviewed for the following periods:

   a) Three months, year to date, one-,three- and five years.

   b) Rolling 12-month periods.

3. See communications requirements II-C in General Policy and Objective Statement.

Mid Cap Growth Equity Manager Guidelines

Investment Philosophy

1. Any significant deviation from the managers stated style will require written approval from the Plan.

2. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Common Stock Guidelines

1. Cash should not exceed 5% of the portfolio.

2. Equity securities shall mean common stocks or equivalent (ADRs limited to 15% of the portfolio, issues convertible into common stocks, etc.).

3. Equity investment in any one company may not exceed 10% of the market value of the portfolio.

4. Investment in equities of any one company that exceed 5% of its equity outstanding shall be brought to the immediate attention of the Board.

5. It is expected that the portfolio will be prudently diversified by industry.

6. No leverage will be allowed in the portfolio.

7. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

8. The weighted average market capitalization for the portfolio shall be within 30% of the weighted average market capitalization of the Russell Mid Cap Growth Index.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

a) An unmanaged market index comprised of the Russell Midcap Growth plus 2% compounded annually.

b) A relative return target of the top half of the Consultant's peer group of mid capitalization growth equity managers.

2. Performance will be reviewed for the following periods:

   a) Three months, year to date, one-, three- and five years.

   b) Rolling 12-month periods.

3. See communications requirements II-C in General Policy and Objective Statement.

Fixed Income Manager Guidelines

Investment Philosophy

1. Investment Manager will act solely as a fixed income manager and will restrict the investment to fixed income securities.

2. Any significant deviation from the managers stated style will require written approval from the Plan.

3. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Fixed Income Portfolio Quality

1. Diversification

- The diversification of the fixed income securities held in the portfolio among sectors and issuers is the responsibility of the investment manager.

- No single company's securities shall represent more than 3% of the market value of the portfolio. (This does not apply to obligations of the U.S. Government or its agencies).

Stabilized Fixed Income Guidelines

1. Obligations of the U.S. Government or U.S. Government agencies may be held in any amounts.

2. Corporate bonds which are obligations of US corporations shall be diversified by issuer type; for example, industry, utility, financial or telephone issues; and no more than 3% of the portfolio shall be invested in the obligations of any one issuer.

3. Securities must be rated at least "Baa" by Moody's and "BBB" Standard & Poor's at the time of purchase.

4. Issues subsequently downgraded below “BBB” rated quality must be sold as soon as is prudently possible unless their retention is approved by the Board. Manager will notify Executive Director, Assistant Executive Director, and Investment Consultant within one business day of any such downgrades along with their recommendation.

5. The original issue size of the securities selected should be such to afford a high degree of marketability.

6. No securities which are denominated in a foreign currency may be held.

7. Effective duration of the portfolio shall not vary from that of the benchmark by more than 1 year.

8. No leverage will be allowed in the portfolio.

9. Cash should not exceed 5% of the portfolio.

10. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, use of derivatives, except as otherwise provided in manager specific guidelines.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

    a) An unmanaged market index comprised of the Lehman Brothers Intermediate Aggregate plus 0.5%.

    b) A relative return target of the top half of the Consultant’s peer group of defensive fixed income managers.

2. Performance will be reviewed for the following periods:

    a) Three months, year to date, one-, three- and five years.

    b) Rolling 12-month periods.

3. See Communications requirements II-C in General Policy and Objective Statement.

Intermediate Fixed Income Manager Guidelines

Investment Philosophy

1. Any significant deviation from the managers stated style will require written approval from the Plan.

2. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Fixed Income Guidelines

1. Obligations of the U.S. Government or U.S. Government agencies may be held in any amounts.

2. Corporate bonds which are obligations of US corporations shall be diversified by issuer type; for example, industry, utility, financial or telephone issues; and no more than 3% of the portfolio shall be invested in the obligations of any one issuer.

3. Securities must be rated at least “Baa” by Moody’s and “BBB” Standard & Poor’s at the time of purchase.

4. Issues subsequently downgraded below “BBB” rated quality must be sold as soon as is prudently possible unless their retention is approved by the Board. Manager will notify Executive Director, Assistant Executive Director, and the Investment Consultant within one business day of any such downgrades along with their recommendation.

5. The original issue size of the securities selected should be such to afford a high degree of marketability.

6. No securities which are denominated in a foreign currency may be held.

7. Effective duration of the portfolio shall not vary from that of the Lehman Intermediate Government/Credit Index by more than 1 year.

8. No leverage will be allowed in the portfolio.

9. Cash should not exceed 5% of the portfolio.

10. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

   a) An unmanaged market index comprised of the Lehman Brothers Intermediate Aggregate plus 0.5%.

   b) A relative return target of the top half of the Consultant’s peer group of intermediate duration fixed income managers.

2. Performance will be reviewed for the following periods:

   a) Three months, year to date, one-, three- and five years.

b) Rolling 12-month periods.

3. See Communications requirements II-C in General Policy and Objective Statement.

Core Fixed Income Manager Guidelines

Investment Philosophy

1. Any significant deviation from the managers stated style will require written approval from the Plan.

2. The manager is expected to earn the highest possible rate of return consistent with the risk tolerance of the Plan.

Fixed Income Guidelines

1. Obligations of the U.S. Government or U.S. Government agencies may be held in any amounts.

2. Corporate bonds which are obligations of US corporations shall be diversified by issuer type; for example, industry, utility, financial or telephone issues; and no more than 3% of the portfolio shall be invested in the obligations of any one issuer.

3. Securities must be rated at least "Baa" by Moody's and "BBB" Standard & Poor's at the time of purchase.

4. Issues subsequently downgraded below "BBB" rated quality must be sold as soon as is prudently possible unless their retention is approved by the Board. Manager will notify Executive Director, Assistant Executive Director, and the Investment Consultant within one business day of any such downgrades along with their recommendation.

5. The original issue size of the securities selected should be such to afford a high degree of marketability.

6. No securities which are denominated in a foreign currency may be held.

7. No more than 5% of the portfolio shall be invested in convertible securities or preferred stocks.

8. Effective duration of the portfolio shall not vary from that of the Lehman Aggregate Index by more than 2 years.

9. No leverage will be allowed in the portfolio.

10. Cash shall not exceed 5% of the portfolio.

11. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

 a) An unmanaged market index comprised of the Lehman Brothers Aggregate plus 0.5%.

 b) A relative return target of the top half of the Consultant's peer group of core duration fixed income managers.

2. Performance will be reviewed for the following periods:

 a) Three months, year to date, one-, three- and five years.

 b) Rolling 12-month periods.

3. See Communications requirements II-C in General Policy and Objective Statement.

International Equity Manager Guidelines

Investment Philosophy

1. Any significant deviation from the manager's stated style will require written approval from the Plan.

2. The manager is expected to earn the highest rate of return consistent with the risk tolerance of the Plan.

International Equity Guidelines

1. Diversification - The manager will broadly diversify across country markets utilizing medium to large capitalization companies.

2. Equity securities shall be of non-U.S. issues (including ADRs, ordinary shares, convertible bonds, and U.S. registered securities) whose principal markets are outside of the U.S.

3. While there are no percentage limits in regard to country weightings, the manager should use prudence and reasonable good judgment.

4. Investment in the common stock on any company may not exceed 5% of its share out-standing; and no single stock investment may exceed 5% of the market value of the portfolio.

5. The cash assets of the portfolio may be invested in short-term fixed income investments (cash equivalents). These securities may be denominated in U.S. dollars

or other major foreign currencies. Cash equivalents should not exceed 5% of the total portfolio.

6. See Currency Hedging Policy.

7. No leverage will be allowed in the portfolio.

8. The manager shall not engage in the following transactions without the express written prior authorization of the Board: short sales, buying on margin, options and futures, except as otherwise provided in manager specific guidelines.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

    a) The MSCI-EAFE Index plus 2%.

    b) The top half of Consultant's Developed Market International Equity Manager Universe.

2. Performance will be reviewed for the following periods:

    a) Three months, year-to-date, one, three and five years.

    b) Rolling 12-month periods.

3. See Communications requirements II-C in General Policy and Objective Statement. (Page 2)

Real Estate and Timber Manager Guidelines

Investment Philosophy

1. Any significant deviation from the manager's stated style will require written approval from the Plan.

2. The manager is expected to earn the highest rate of return consistent with the risk tolerance of the Plan.

Real Estate and Timber Guidelines

1. Diversification - The manager will broadly diversify across property and forest types, size of property and timber area, number of properties and geographic location.

2. Real estate properties shall mean those considered to be core properties, which include high quality, income producing office, multi-family housing, industrial and retail facilities. Timber shall include a well-diversified portfolio of trees in various stages of growth and development.

3. The cash assets of the portfolio may be invested in short-term fixed income investments (cash equivalents). Cash equivalents shall be kept to a minimum and generally should not exceed 10% of the total portfolio.

4. Leverage will be allowed in amounts determined by the Investment Committee on a manager-by-manager basis.

Performance

1. Manager performance shall be monitored using a three-year moving average and performance will be compared to:

   a) The NCREIF Index plus 2%.

   b) The top half of Consultant's Real Estate Manager Universe.

2. Performance will be reviewed for the following periods:

   a) Three months, year-to-date, one, three and five years.

   b) Rolling 12-month periods.

3. See Communications requirements II-C in General Policy and Objective Statement. (Page 2)

Appendix

Section I – Proxy Voting Policy

Proxy voting shall be the responsibility of the investment manager and shall be done with the best interests of the Plan participants in mind. Managers shall coordinate with Plan staff to ensure that their current voting policy coincides with the Plan's philosophy on proxy voting. Managers shall maintain records of proxy votes and shall report this record annually to the Plan. Additional information regarding proxy voting policies, and or specific proxy initiatives may be requested by the Plan.

Section II – Securities Lending Policy

The Plan may elect to participate in a securities lending program that shall be implemented through the Plan's custodian or through a designated third party securities lending agent. Participation in such program shall continue until the Executive Director, Assistant Executive Director and Investment Consultant agree that the risk-reward relationship is no longer advantageous for Plan. If and when this determination is made the Plan may discontinue participating in any securities lending programs that are currently in place. This shall be done without Board approval. The Board shall be notified at the next Board meeting that participation in the program(s) has been ceased. Notification will also occur if and when the Plan decides to reinstate participation in such a program.

Participation any securities lending program shall in no way inhibit the investment strategy or process of any investment manager. The program shall only take reasonable risks with respect to securities on loan, levels of collateral collected and investment of collateral proceeds. Any securities on loan shall be marked-to-market on a daily basis to ensure adequacy of collateral. The sponsor of the securities lending program shall provide an annual report to the Plan. Details of this report shall be provided to the Board by Plan staff.

Section III – Economically Targeted Investments (ETI) Policy

According to a 1994 interpretive bulletin prepared by the Department of Labor the definition of ETIs are "…investments that are selected for the economic benefits they create in addition to the investment return to the employee benefit plan investor." The Board understands that this area is open to broad interpretation. The following criteria, applicable to any investment, will also be applied to investments that might be classified as ETIs:

1. The fiduciary principles of prudence and exclusive interest of participants will not be abrogated or modified in order to increase the attractiveness of ETIs.
2. There will be no concession on rate of return. This means there will be no hidden subsidies and that the classic "efficient frontier" test is applicable: a commensurate unit of return will be received for each unit of risk incurred.
3. All participation should be voluntary on the part of the System and should not stem from a legal or policy mandate.
4. Each ETI will be evaluated using an integral, objective process – that is, each will be meticulously analyzed solely on its own risk/return characteristics. No weight will be given to redeeming social interests.
5. The System will participate only if at least one other comparable investor is participating.

When evaluating an investment, appropriate consideration must be given to the role that the investment or investment course of action plays (in terms of diversification, liquidity, risk and return) with respect to the entire Investment Portfolio of the System. Consideration should also be given to alternative investments with similar risks available to the System. The Board believes this set of investment criteria is in full compliance with Section 105.688.RSMo.

Section IV – Securities Class Action Litigation Policy

It is the policy of this Plan not to serve as lead plaintiff in a class action litigation case unless the Plan is one of the largest shareholders of the security in question, and it is determined through consultation with legal counsel that serving in this status would be in the best interests of the Plan. Case where the opportunity to serve as lead plaintiff will be reviewed as they arise and determination on how to proceed will be outlined at that time.

The custodian will have primary responsibility for monitoring shareholder litigation settled in U.S. District Courts on behalf of the Plan. The custodian will notify the Plan when litigation has been settled that effects a security either currently owned, or previously owned while the custodial arrangement was in effect. Information regarding any class action settlements will be sent to both the Executive Director and Assistant Executive Director. If participation is elected by the Plan the custodian will be responsible for submitting documentation so that the Plan may participate in any settlement distributions. Any distributions received by the custodian on behalf of the Plan shall be deposited into the Plan's cash account unless otherwise directed by the Plan.

Missouri Highway Transportation Employees &
Highway Patrol Retirement System

Statement of Investment Policy, Objectives and Guidelines for Total Fund