THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

INVESTMENT POLICY
As amended July 31, 2008

INTRODUCTION

The Public Employees Retirement Association of New Mexico (PERA), created by law in 1947, is the entity established for the purpose of administering the provisions of the Public Employees Retirement Act of New Mexico, NMSA 1978, Sections 10-11-1 to 10-11-141, as amended, the Volunteer Firefighters Retirement Act, NMSA 1978, Sections 10-11A-1 to 10-11A-7, as amended, the Judicial Retirement Act, NMSA 1978, Sections 10-12B-1 to 10-12B-19, as amended, the Magistrate Retirement Act, NMSA 1978, Sections 10-12C-1 to 10-12C-18, as amended, and the Public Employees Reciprocity Act, NMSA 1978, Sections 10-13A-1 to 10-13A-4, as amended, as well as other federal and State laws relating to the public employees retirement system in the State of New Mexico. As of July 2007, PERA administers 3 retirement plans covering state employees, municipal employees, county employees, police, firefighters, judges, magistrates, and legislators. PERA is governed by the Public Employees Retirement Board (Board).

The purpose of the Investment Policy (the Policy) is to delineate the objectives and guidelines for investing the assets of PERA. The Policy is intended to allow sufficient flexibility in the management process to capture investment opportunities, while providing parameters that ensure prudence and care in the execution of the investment program. The Policy also defines the roles and responsibilities of the various entities involved in the investment process and facilitates internal and external communication of the Policy.

STATUTORY AUTHORITY

The Uniform Prudent Investor Act (UPIA) [45-7-601 to 45-7-612 NMSA 1978] and Section 10-11-132 NMSA, 1978 govern NM PERA investments. In summary, the UPIA states that all persons responsible in making investment decisions for the Public Employees Retirement Fund (Fund) shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent investor 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. Investments are to be diversified so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

INVESTMENT OBJECTIVES

The Board shall: (1) adopt a long-term Real Return Objective (RRO), adjusted for inflation, (2) adopt an allocation policy that is expected to meet the RRO over long periods of time, while minimizing volatility (risk) and (3) minimize the costs associated with implementation of the asset allocation through efficient use of internal and/or external resources. Realization of this objective should meet or exceed the following dual premises which are the financial basis of the PERA funding objective: a total annual return of 8%, consisting of (1) an assumed annual rate of inflation (CPI) of 4.0% plus (2) an annual compound real rate of return, net of investment expenses, greater than or equal to 4.0%. For actuarial purposes, the 8% total return objective consisting of (1) an assumed annual rate of wage inflation of 4.5% (CPI 4.0% plus wage increases and merit increases of 0.5%) plus (2) an annual compound rate of return, net of investment expenses, greater than or equal to 3.5%.

Consistent with its funding objective to achieve a total annual return of 8%, the Board shall implement an alternative investments program that utilizes non-traditional asset classes, including, but not limited to real assets and real estate, private equity and absolute return (hedge funds). These alternative investments are expected to be illiquid and long-term in nature.

The **Real Assets and Real Estate Program** shall enhance total Fund performance through investment in non-publicly traded securities by generating a long-term rate of return that exceeds CPI by 6%. Real Assets and Real Estate may, however, include publicly-traded securities, such as Real Estate Investment Trusts (REITs).

- REITS are expected to exceed the return of the NAREIT Equity Index.
- Real Estate Partnerships are expected to exceed the return of the NCREIF Index by 3%.
- Commodities are expected to exceed the return of the appropriate commodities index.
- Timber is expected to exceed the return of the NCREIF Timber Index.
- Energy Partnerships are expected to be in the first quartile of the comparable Venture Economics Universe, adjusted for vintage year.

It is recognized that it may take three to five years for the non-publicly traded investments to be fully made and that there may be deviations from the previously mentioned targets during the initial funding period.

The **Private Equity Program** shall enhance total Fund performance through investment in non-publicly traded securities by generating a long-term rate of return that exceeds that of publicly traded equities.

- Over the long-term (5-10 years), performance of the Private Equity Program is expected to exceed the PERA U.S. Equity asset class benchmark by 3% annualized, net of fees and expenses.
- Over the medium-term (3-5 years) after the program is fully invested, performance of the Private Equity Program is expected to exceed the return of the Venture Economics Pooled IRR for the respective vintage years.
- Over the short-term (program's first 3 years), the Private Equity Program will be incorporated into the PERA policy index at its actual weight and performance.
- Individual partnerships will be compared to the appropriate Venture Economics Universe category, adjusted for vintage year.

The **Absolute Return Program** shall utilize a portfolio of hedge funds to achieve positive returns with a degree of independence from movements in equity and fixed income markets and independent of traditional performance benchmarks. By emphasizing absolute, rather than relative returns, and utilizing a wider range of investment techniques, such as leverage, short selling and derivatives to achieve their objectives, hedge funds are expected to deliver an absolute return with a risk level between that of stocks and bonds. The portfolio should also have a low correlation with other asset classes and therefore help diversify the Fund. As such, the objective of the Absolute Return Program is to reduce the volatility of the Fund while continuing to maximize returns in a variety of market environments.

Given the above investment objective, the performance of the Absolute Return Program will be compared against the following benchmarks:

- Over the long-term (3-5 years), performance of the Absolute Return Program is expected to exceed LIBOR by 4% annualized, net of fees and expenses.

- Over the short-term, performance of the Absolute Return Program is expected to exceed the HFRI Fund-of-Funds Composite Index, net of fees and expenses.

ROLES AND RESPONSIBILITIES

PERA is governed by the Public Employees Retirement Board (Board). The primary fiduciary fiscal responsibility of the Board is to ensure that the Retirement Fund's (Fund) assets are responsibly managed in accordance with the actuarial needs of the Association and with sound investment practices. The Board approves investment objectives and policies, and oversees the employment of qualified and competent investment managers. The Board shall review the performance of the investment managers against their stated objectives at least quarterly. As part of the review of performance, the Board in its discretion may meet with the managers annually or more or less frequently as requested by the Board. The Board shall judge the performance of each investment manager according to the benchmark contained in their respective contracts with PERA, benchmarks should reflect the objectives and characteristics of the strategic role their portfolio plays in the overall investment objectives of PERA's long-term asset allocation strategy.

For its alternative investments, the Board shall conduct a formal monitoring process at least quarterly to determine whether the investment is meeting the specific alternative investment class objectives and other requirements. The monitoring process shall be aimed at determining whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process shall disclose whether there has been any material deviation from the investment objectives, philosophy and process; whether the personnel responsible for managing the investment vehicle are still in place; whether the organization continues to be stable; whether performance and risk meet expectations; and whether the investment vehicle manager adheres to its investment and other requirements.

A formal review of PERA's investment position shall be conducted annually by the Board. Updated financial projections shall be developed at least every three to five years. The information for the reviews shall come from the staff, outside consultants and investment managers, as they may be retained. The Board may delegate certain investment-related responsibilities to the investment committee.

The Chairperson of the Board shall appoint an Investment Committee to oversee the direction, approval and implementation of the Policy. The Investment Committee shall preview and discuss all recommendations from the Director of Investments before they are brought to the Board.

The **Director of Investments and Investment Staff** exercise the same fiduciary responsibility under applicable law as the Board. The Director of Investments has primary responsibility for the implementation of the investment program. The Director of Investments and the Investment Staff shall manage the portfolio according to the Board's policies, advise and inform the Board about investments, assist with development and review of investment policies and procedures, report on the progress of the fund in meeting its investment objectives, and compare the performance of the portfolio to established benchmarks. In addition, the Director of Investments has limited authorization to make investment decisions with the consent of the Interim Investment Committee.

Temporary approval of an investment issue may be obtained with the consent of the Chairperson of the Board, Vice-Chairperson of the Board, the Chairperson of the Investments Committee and PERA's Executive Director referred to as the Interim Investment Committee. Alternatively, if one of the designated individuals cannot be contacted, either the Chairperson of the Public Employees Retirement Board, the Vice-Chairperson of the Public Employees Retirement Board or the Chairperson of the Investments Committee (in that order) may designate one or more Public Employees Retirement Board members who may be contacted for approval in place of the designated individual(s). At the next meeting immediately following any such temporary approval, the Investment Committee and the Board shall approve the temporary action taken. If the Investment Committee and the Board fail to approve the decision of the Interim Investment Committee, the Director of Investments shall, as soon as practicable, reverse the temporary action taken unless otherwise directed by the Investment Committee and Board.

External Investment Managers shall invest plan assets according to the investment style for which they were hired and judgments concerning relative value of securities. In particular, investment managers are accorded full discretion, within policy and guideline limits, to: select individual securities and other investment exposures as defined in their mandates, and diversify portfolio assets. Staff shall monitor and review all investment portfolios and managers to ensure compliance with the Policy and applicable guidelines.

Investment Consultants shall agree to indemnify PERA as fiduciaries as provided in their Professional Services Agreement and shall discharge their duties with respect to this fund solely in the interest of the members and benefit recipients with the care, skill, prudence, and diligence under the circumstances then prevailing. Qualified Consultants include those professionals with the background, expertise, and demonstrated success as institutional investment consultants for at least five years, and with research/data base access to provide investment program advice. The Board may request Qualified Consultants to serve in a discretionary capacity, i.e. as a gatekeeper, as opposed to a non-discretionary capacity.

Outside Legal Counsel shall agree to indemnify PERA as fiduciaries as provided in their Professional Services Agreement and discharge their duties with respect to this fund solely in the interests of the members and benefit recipients with the care, skill, prudence and diligence under the circumstances prevailing. Qualified Legal Counsel include those professionals with the background, expertise and demonstrated success as legal counsel for public funds and large institutional clients regarding alternative investments, including, but not limited to, private equity, hedge funds, real estate and real assets.

The **Custodian** holds assets directly, through its agents, its sub-custodians, or designated clearing systems, assets. The Custodian is accountable for registration of those designated assets in good delivery form, collection of income generated by those assets, and any corporate action notification. The Custodian is responsible for delivery and receipt of securities of the aforementioned transactions. The Custodian is responsible for the ongoing pricing and valuation of all assets; investment managers must reconcile their values to those of the Custodian. The Custodian is to cooperate with, and provide assistance to, PERA and its investment managers in the reconciliation process. The Custodian is required to provide online records and reports, performance reporting, accounting reports and other services included in the agreement. The Board may opt to designate other duties to the Custodian as stipulated in its agreement with the State Board of Finance.

INVESTMENT PHILOSOPHY

The Funds' assets should be managed in a manner that reflects both the Funds' unique liabilities and funding resources, incorporating accepted investment theory and reliable, empirical evidence. Specifically, the Board has adopted the following principles:

- Strategic asset allocation is the most significant factor influencing long-term investment performance and asset volatility. The asset allocation targets adopted by the Board shall be adhered to according to the guidelines contained in this policy.
- Risk is a major factor that shall be taken into account in assessing investment policy and strategy. In evaluating specific investments, the risks associated with that investment and the impact of the investment to the overall portfolio shall be considered.
- Diversification both by and within asset classes is the funds' primary risk control element, other risk control measures shall be implemented when appropriate.
- The funds' liabilities are long term and the investment strategy shall therefore be long-term in nature. Although strategic decisions will prevail in determining the long-term asset allocation, informed tactical asset allocation decisions may be used to enhance returns and/or reduce risk in varying market environments in accordance to the guidelines set forth in the investment policy.
- In order to maintain continuity and the level of expertise required, PERA's assets, excluding the PERA building, shall be 100% externally managed by investment professionals registered under the Investment Advisors Act of 1940 (or appropriately exempt from registration).
- A combination of both passive and active investment strategies shall be used to implement the funds' investment policy.

APPROVED INVESTMENTS, PRACTICES, & INVESTMENT GUIDELINES

The Board may invest and reinvest the funds in the following classes of securities and investment activities as long as such investments comply with the Uniform Prudent Investor Act. Fund of Fund strategies are allowable in any of the asset classes. Managers may use derivatives to reduce risk exposure or improve trading efficiency as specified in their Agreement. All investments are subject to approval of the retirement board and satisfactory legal review of applicable contractual terms and conditions.

Approved Investments

Equity

- Preferred stock, common stock, initial public offerings, securities of foreign issuers listed on U.S. Exchanges, and any security convertible to common stock or American Depository Receipts (ADRs) that are registered by the U.S. Securities and Exchange Commission (SEC) of any corporation whose securities are listed on at least one U.S. stock exchange that has been approved by or is controlled by the SEC or on the National Association of Securities Dealers (NASD); provided that the funds of which the Board is trustee shall not be invested in more than ten percent of the voting stock of a company; and further provided that investing with enhanced index managers using futures and options is permitted solely for the purpose of adding incremental value and controlling risk and not for speculation.

- Mutual funds or other similar commingled investments as an alternative to investing in separately managed portfolios of stocks and bonds. Such investments may be in Stocks or shares of a diversified investment company or Mutual Fund registered under the Federal Investment Company Act of 1940, provided that the investment company has total assets under management of at least one hundred million dollars ($100,000,000); individual, common or collective trust funds of banks or trust companies, provided that the investment company has assets under management of at least one hundred million dollars ($100,000,000); provided that the board may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments.

- Preferred stock, common stock, and convertible issues of any non U.S. Corporation; which may be denominated in non U.S dollars, provided that the securities are traded on one or more national stock exchanges or included in a nationally recognized list of stocks; and provided that the funds of which the retirement board is trustee shall not be invested in more than ten percent of the voting stock of any company.

- Portable Alpha for the purpose of earning excess return of 3% above a designated index (i.e. the S&P 500, EAFE, Lehman Aggregate, or other commonly used indexes) by combining the alpha potential of hedge funds with beta exposure acquired through swaps and/or futures. Performance of the Portable Alpha Program shall combine: (i) investments in a diversified portfolio of hedge funds, (ii) a cash reserve of short term cash investments, and (iii) a set of S&P 500 Index or other reference index swaps and futures contracts. The beta overlay component shall replicate the returns of the difference between the S&P 500 Index return, or other reference index, and LIBOR through swaps and futures. The cash reserve component of the portfolio shall provide sufficient liquidity to provide for possible cash outflows stemming from net losses in the beta overlay and to earn a cash return equal or above LIBOR at comparable risk. The target size of the cash reserve is 15% of Portable Alpha portfolio assets, but could vary significantly to settle periodic swap payments and receipts. The alpha generating hedge fund component shall deliver an absolute net of fee return between 3% and 4% per year in excess of LIBOR at a bond like level of risk. The target size of the hedge fund portfolio is 85% of Portable Alpha portfolio assets, but could vary due to periodic swap payments and receipts.

Fixed Income

- Split ratings are acceptable.

- Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations, or instrumentalities for which the credit of the United States government is pledged for the payment of the principal and interest.

- Bonds, notes or other obligations issued by a state, its municipalities or other political subdivisions, that have received an investment grade bond rating, and are registered by the SEC or the Municipal Securities Rulemaking Board (MSRB).

- Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States; provided that the securities shall have a minimum credit rating of CCC- according to Standard and Poor's rating system or Caa3 according to Moody's investors rating system or their equivalents by a national rating agency, approved by the Board; and provided that not more than ten percent of the funds for which the retirement board is trustee shall at any one time be invested in debt obligations of corporations with a credit rating less than BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalents. Investment managers may purchase securities that are not rated by a national rating agency, if stipulated in their contract, and provided that the investment manager's internal credit rating on the security is equivalent to at least CCC- according to Standard and Poor's or Caa3 according to Moody's.

- Debt obligations of non-United States governmental or quasi-governmental entities, these may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade rating (unless otherwise approved by the Board) of any corporation organized outside of the United States. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.

- Collateralized obligations, including but not limited to mortgages, held in trust that: (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization (SRO) and (2) have underlying collateral that is either an obligation of the United States government or else has a credit rating above or equal to BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalent by a national rating agency approved by the Board (unless otherwise approved by the Board);

Real Estate and Real Assets

- Real Estate Investment Trusts (REITS), including equity investments in publicly traded securities of a company dedicated to owning, and/or, operating income-producing real estate, including but not limited to apartments, shopping centers, offices and warehouses, that are expected to exceed the return of the NAREIT Equity Index.

- Real Estate Partnerships, including investments in private vehicles through limited partnerships or limited liability companies that have an ownership interest in direct real estate properties, whether income-producing or non-income producing. The investment strategies may include "value added" strategies, which derive their return from both income and appreciation, and "opportunistic," which derive their return primarily through appreciation and are expected to exceed the return of the NCREIF Index by 3%.

- Commodities, including but not limited to futures and/or swaps on individually traded commodities or indexes comprising groups of commodities like the Goldman Sachs Commodity Index (GSCI) or Dow Jones – AIG Commodity Index (DJ-AIGCI). Commodities may be used as an overlay strategy on Treasury Inflation Protected Securities (TIPS) or other publicly traded instruments.

- Timber Partnerships, including but not limited to, investments in limited partnerships or limited liability companies that have an ownership interest in properties where the majority value of the property is derived from income-producing timber and expected to exceed the return of the NCREIF Timber Index.

- Energy Partnerships, including but not limited to limited partnerships or limited liability companies that have an ownership interest in energy-related businesses. Investments may include those across the industry spectrum from upstream (exploration and production), to midstream (processing and transportation), to downstream (refining and distribution) and expected to be in the first quartile of the comparable Venture Economics Universe, adjusted for vintage year.

Absolute Return (Hedge Funds)

- Hedge Funds shall invest primarily in publicly traded securities and derivatives and use long and short positions and leverage within limits approved by the Board to reduce market exposure in order to profit from security selection. Hedge funds shall manage at least $100 million in the investment strategy for which they are hired. Funds-of-funds investment vehicles may be used for up to 20% (1/5) of the hedge fund strategic allocation target of 5% of total fund assets.

- Market Neutral strategies such as equity market neutral, fixed income arbitrage, and convertible bond arbitrage.

- Credit strategies that typically invest in high yield bonds, bank loans and structured credit products.

- Distressed strategies that seek to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition or in liquidation.

- Event Driven strategies that take advantage of transaction announcements and other one-time events, including merger arbitrage, spin-offs and restructurings.

- Equity long/short strategies where there is combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market. Strategies may be focused on U.S., non-U.S., and/or specialty mandates.

- Global Macro strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies.

- Multi-strategies hedge funds that invest using a combination of previously described strategies.

Private Equity

- Private Equity funds for providing capital for start-up, expansion, buyout/acquisition, recapitalization, debt financing distressed debt, mezzanine financing and other similar business purposes including buyout investments, venture capital investments, non-U.S. and distressed debt. Private equity managers shall have a verifiable track record and long-term experience of at least 5 years working together as a team.

- Buyouts, including investments in acquisitions, growth equity, recovery investments, subordinated debt, and special situations, which represent a diversified strategy across many sub-categories. Investments shall be made across the market capitalization spectrum and involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company. The use of leverage is acceptable. Investments are typically made in years one through six and returns typically occur in years three through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- Venture Capital, including investments in companies in a range of stages of development from start-up/seed-stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

- Distressed Debt, including investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments and bank loans. Equity exposure is acceptable as debt positions are often converted to equity during the bankruptcy reorganization process. Investments are typically made in years one through five and returns typically occur in years three through ten. Investments may be made in companies that are either U.S. or non-U.S. domiciled.

Currency

- Active currency strategies which do not necessarily hedge existing international holdings, instead, seeking absolute return which may include leverage, cross-hedging, emerging markets, and interest rate futures.

Investment Practices

- **Repurchase Agreements (Repos) & Tri-Party Repurchase Agreements**
  Contracts for the present purchase and resale at a specified time in the future, not to exceed one year, of specific securities at specified prices at a price differential representing the interest income to be earned by the retirement board. No such contract shall be entered into unless the contract is fully secured by obligations of the United States, or other securities backed by the United States, having a market value of at least one hundred two percent of the amount of the contract. The collateral required in this section shall be delivered to the state fiscal agent (or third party custodian where applicable) or his designee contemporaneously with the transfer of funds or delivery of the securities, at the earliest time industry practice permits, but in all cases settlement shall be on a same day basis. No such contract shall be entered into unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars ($500,000,000).

- **Securities Lending**
  The lending of securities is considered an integral part of the investment plan. The Board may authorize a securities lending program for all or any portion of the assets held as investments by PERA. The lending of securities may be accomplished by the Board contracting with one or more designated agents that are experienced in providing securities lending services. Securities may only be loaned by the designated agent(s) through the entering of contracts for the temporary exchange of securities for the use by broker-dealers, banks or other recognized institutional investors, for periods not to exceed one year, for a specified fee or consideration. The Director of Investment may, with the approval of the Interim Investment Committee as provided herein, approve the addition or deletion of borrowers of the securities. Each contract must be fully secured by collateral in the form of cash or U.S. government or government agency securities of at least one hundred and two percent of the market value plus accrued interest for domestic securities and of at least one hundred and five percent of the market value of the securities plus accrued interest for international securities. All international loans and proceeds shall be negotiated and settled in U.S. dollars.

General Investment Guidelines

- The Board shall operate the investment program in compliance with all applicable federal and State laws and regulations concerning the investment of pension assets.

- No investment or action pursuant to an investment may be taken unless permitted by this Policy or by action of the Board.

- The Board shall allocate net pension fund contributions on an on-going basis in accordance with this Policy to balance the overall asset allocation against target objectives when deviations occur because of capital market fluctuations. Such allocations can be made even if contributions to managers or asset classes which have recently experienced poor performance are entailed, unless the poor performance resulted from an unexpected occurrence or condition which is not expected to be rectified.

- The Board may utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, manager screening and selection, and topical studies. The comments and recommendations of the consultant and Director of Investments shall be considered by the Board in conjunction with other available information for the purpose of making informed and prudent decisions. The Board may utilize the consultant as a gatekeeper with fiduciary responsibility for due diligence and investment recommendations for alternative investments.

- The Board shall utilize the services of the State Treasurer for holding PERA's assets. The State Treasurer at the direction of the Board shall deposit said assets with a bank or trust company for safe keeping or servicing. In addition, for cash management, the Board may utilize the services of the State treasurer for overnight investment of short-term assets and/or, a separate or commingled short-term investment fund ("STIF") approved by the Board or administered by the Custody Bank designated by the State Treasurer or the State Board of Finance providing the STIF account only invests in those securities authorized by PERA's statutes, investment policy and investment guidelines. Investment managers shall invest all cash in PERA's approved STIF funds.

- PERA may elect to affirm trades or, in its sole discretion and acting through its designee(s), PERA may direct its investment managers to affirm trades on PERA's behalf. An investment manager shall not affirm trades on PERA's behalf unless the direction from PERA to do so is in writing. PERA may rescind the investment manager's authorization to affirm trades at any time upon written notice to the investment manager.

- It is the responsibility of the Board to administer the investments of PERA at reasonable cost, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to PERA.

- Investments shall not be made to the detriment of long term investment results regardless of the apparent rationale for social good or the immediate needs of the local, state or national economy.

- Professional investment managers shall be retained to assist in managing PERA's assets. Each investment manager shall be a registered adviser under the Investment Advisers Act of 1940 (or appropriately exempt from registration) and shall function under a formal contract that delineates its responsibilities and appropriate performance expectations. A formal set of investment guidelines and administrative requirements for management of each portfolio shall be provided to each manager.

Investment Guidelines for Portable Alpha

- Investment is authorized in hedge funds that use abroad array of various hedge fund styles, including but not limited to Market Neutral, Credit, Distressed, Event Driven, Equity long/short, Global Macro and Multi-Strategies.

- For the 85% target allocation to the hedge fund component of the Portable Alpha Portfolio, the targeted and range of investment exposures to the various hedge fund styles are shown in the following table:

Style	Target	Minimum	Maximum
Market Neutral	**5%**	**0%**	**20%**
Credit	**10%**	**5%**	**25%**
Distressed	**10%**	**5%**	**20%**
Event Driven	**20%**	**10%**	**30%**
Equity Long/Short	**0%**	**0%**	**15%**
Global Macro	**5%**	**0%**	**20%**
Multi-Strategy	**35%**	**20%**	**50%**
Total	**85%**		

- Separate accounts and/or a variety of commingled vehicles, such as limited partnerships, limited liability companies, or offshore corporations are permissible.

- No more than 15% of the Portable Alpha portfolio's market value of assets may be invested in any single multistrategy hedge fund, and no more than 10% of the Portable Alpha portfolio's market value of assets may be invested in any single strategy (Market Neutral, Credit, Distressed, Event Driven, Equity Long/Short, Global Macro) hedge fund. During the investment period the weightings to individual funds and exposures may temporarily exceed the limits previously indicated. In addition, the weightings to individual funds and exposures may temporarily exceed the limits previously indicated to the extent that lock-up periods or other liquidity restrictions with respect to a hedge fund prevent an immediate reallocation. No investments shall be made in any hedge fund if the combined Absolute Return and Portable Alpha investments in that hedge fund represents more than two-thirds of one percent of total PERA assets.

- Individual hedge fund investments may have specified liquidity parameters defining lock-up periods and withdrawal frequency. Liquidity risk is managed by monitoring and maintaining a schedule of the liquidity of the individual hedge funds and aggregating it at the total Portable Alpha portfolio level.

- The performance of individual hedge funds will be evaluated compared to their expected return premium over LIBOR (300-400 basis points) over trailing 5 year periods, net of all fees and expenses, as well as their respective peer universe over shorter time periods, as measured by a recognized hedge fund index provider.

Beta Overlay:

- All swap agreements shall be consistent with ISDA recommendations.

- Index futures can be used in place of swaps but it is expected that futures will represent approximately 10% of beta overlay with the remainder represented by swaps. Futures are used to facilitate shorter term changes in notional amounts of the beta overlay.

- Swap terms can vary but will generally have a one year maturity (tenor) with quarterly resets.

- The notional dollar size of the swaps should equal the value of hedge funds plus the cash reserve.

- Swap counterparties should be rated at least A- or equivalent by two major rating agencies;

- The notional value of swaps should be diversified across several (at least three or more) counterparties;

- Quarterly reset periods should be diversified across months with approximately one-third of total value of notional swaps resetting every month.

- Swap maturities should be diversified so that re-pricing is not concentrated at a single point in time.

Cash Reserve:

- Only short term maturity, high quality, liquid investments are permitted that exhibit little or no principal risk.

- If the level of the cash reserve exceeds 18% of the total Portable Alpha portfolio, cash should be rebalanced back to 15% by investing in the underlying hedge funds.

- Generally when the level of the cash reserve falls below 15% of the total Portable Alpha portfolio due to negative swap returns, the cash reserve should not be rebalanced upward since it is anticipated that positive swap returns that are normally exhibited will increase cash reserves back to the 15% level.

Investment Guidelines for Alternative Investments

Real Assets and Real Estate Guidelines

- PERA shall endeavor to limit the potential for any one investment to negatively impact the long-term results of the Real Asset and Real Estate Program by investing across a variety of industries and geographic locations.

- PERA shall not comprise more than 20% of any one investment vehicle, and any one investment vehicle may not comprise more than 10% of the Real Assets and Real Estate Program once it is fully invested, calculated on a committed capital basis. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and will be evaluated as part of the annual plan for the Private Equity Program.

- PERA shall strive to limit the potential for any one investment to negatively impact the long-term results of the Real Assets and Real Estate Program by investing across business cycles and vintage years. Investments shall be selected with the goal of gaining exposure to the array of financing stages by opportunistically exploiting the best investments at different stages of the business cycle.

- Private investment vehicles are illiquid and typically have expected holding periods of 10-12 years. Investments are typically held until maturity and selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private equity investments.

- PERA shall ordinarily direct the sale of securities distributed by its investment vehicles as soon as practically possible and strive to not impair the value of the security.

- For the Real Assets and Real Estate Program, the targeted and range of investment exposures to the various categories, when fully invested, are shown in the following table:

Style	Target	Minimum	Maximum
Real Estate Partnerships	37.5%	30%	45%
REITS	12.5%	5%	20%
Commodities	12.5%	7%	18%
Timber	12.5%	7%	18%
Energy Partnerships	25%	20%	30%
Total	100%		

Absolute Return (Hedge Funds) Guidelines

- **Funds-of-funds investment vehicles may be used for up to 20% (1/5) of the hedge fund strategic allocation target of 5% of total fund assets.**

- No more than 15% of the Absolute Return Program's market value of assets may be invested in any single multi-strategy hedge fund, and no more than 10% of the Absolute Return Program's market value of assets may be invested in any single strategy (Market Neutral, Event Driven, Equity Long/Short, Global Macro) hedge fund. During the investment period the weightings to individual funds and exposures may temporarily exceed the limits previously indicated. In addition, the weightings to individual funds and exposures may temporarily exceed the limits previously indicated to the extent that lock-up periods or other liquidity restrictions with respect to a hedge fund prevent an immediate reallocation.

- Individual hedge fund investments may have specified liquidity parameters defining lock-up periods and withdrawal frequency. Liquidity risk is managed by monitoring and maintaining a schedule of the liquidity of the individual hedge funds and aggregating it at the total Absolute Return Program level.

- The performance of individual hedge funds will be evaluated compared to their expected return premium over LIBOR (300-500 basis points) over trailing 5 year periods, net of all fees and expenses, as well as their respective peer universe over shorter time periods, as measured by a recognized hedge fund index provider.

Absolute Return (Hedge Fund) Investment Targets:

Style	Target	Minimum	Maximum
Market Neutral	5%	0%	20%
Credit	15%	5%	25%
Distressed	10%	5%	20%
Event Driven	20%	10%	30%
Equity Long/Short	20%	15%	45%
Global Macro	5%	0%	20%
Multi-Strategy	25%	20%	50%
Total	100%		

Private Equity Guidelines

- It is recognized that it may take three to five years for the Private Equity Program to be fully invested and that there may be deviations from the previously mentioned targets during the initial funding period.

- Private equity investments are typically private equity limited partnerships, but may also include other entities such as limited liability companies or offshore corporations. These investment vehicles may invest in any type of security throughout the capital structure.

- PERA shall endeavor to limit the potential for any one investment to negatively impact the long-term results of the Private Equity Program by investing across a variety of industries and geographic locations. For investments in venture capital, it is recognized that opportunities may be most readily available in a relatively limited number of industries.

- The Fund shall not comprise more than 20% of any one investment vehicle, and any one investment vehicle may not comprise more than 8% of the Private Equity Program once it is fully invested, calculated on a committed capital basis. The optimum number of investment vehicles in the portfolio and the maximum exposure to any one investment vehicle varies with time and shall be evaluated as part of the annual plan for the Private Equity Program.

- The potential for any one investment to negatively impact the long-term results of the Private Equity Program shall be limited by investing across business cycles and vintage years. Investments shall be selected with the goal of gaining exposure to the array of financing stages by opportunistically exploiting the best investments at different stages of the business cycle.

- Private equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Selling prior to maturity may result in realizing a sales price that reflects a discount to fair market value. Liquidity risk shall be managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation targets to private equity investments.

- PERA shall direct the sale of securities distributed by its investment vehicles as soon as practically possible not to impair the value of the security.

- Individual investment vehicle performance, as measured by the internal rate of return, shall be evaluated compared to the performance of respective peer universes and vintage years, as provided by Venture Economics, a recognized private equity services provider. It is recognized that immature private equity investments will ordinarily have a "J-curve effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees during a period when investments are typically carried at cost and returns have not been realized.

Private Equity Investment Targets:

Style	Target	Minimum	Maximum
Buyout	55%	30%	70%
Venture Capital	20%	10%	30%
Non-U.S.	15%	5%	25%
Distressed Debt	10%	0%	20%
Total	100%		

Note: The Non-U.S. exposure refers to where the partnership or other vehicle is domiciled rather than to where the underlying investments are domiciled.

ASSET ALLOCATIONS

This policy identifies the target allocation of the asset classes PERA can implement and the ranges within each can fluctuate as a percent of the total portfolio. The Board has chosen a long-term asset allocation strategy in accordance with its determination of the appropriate risk tolerance for the fund and its long-term return expectations. Based on the Capital Market projections and the resulting Efficient Frontier provided by PERA's consultant, the Board shall determine the strategic long-term targets and the tactical allocation bands that are allowable. The allocation targets approved by the Board are outlined in the following table. In addition, this table outlines the benchmark weights which will be used to measure performance.

On August 31, 2006, the Board approved a long-term allocation of 15% to Alternatives Investment Vehicles: 5% Absolute Return (Hedge Funds), 5% Private Equity, 2.5% Real Estate, 2.5% Real Assets. The target allocation for Absolute Return, Real Assets and Real Estate over time shall be drawn from Fixed Income and the target allocation for Private Equity over time shall be drawn from Public Equities.

Asset Class	Sub-Asset Class Range	Strategic Asset Allocation Target	Policy Benchmark
PUBLIC EQUITY			
Domestic Equity International Equity	32% - 48% 20% - 30%	40.0% 25.0%	Russell 3000 MSCI EAFE
Portable Alpha	To be determined	To be determined	
PUBLIC DEBT	25% - 40%	**35%**	
Core/Core Plus FI	18% - 28%	23.0%	Lehman Aggregate + 50bp
High Yield	0% - 7%	2.0%	Lehman High Yield
Lehman Aggregate	5% - 15%	10.0%	Lehman Aggregate
ALTERNATIVES	**0%**	**15%**	
Real Estate Private Equity Absolute Return (Hedge Funds)	0.0% 0.0% 0.0%	2.5.0% 5.0% 5.0%	CPI + 6% Private Equity Portfolio Libor + 400 bps
Real Assets	0.0%	2.5.0%	CPI + 6%
Currency	0.0%	0.0%	100 -150bps
CASH/CASH EQUIVALENTS	**0% - 5%**	**0%**	

Rebalancing

The Board and the Investment Director shall review the allocation status of the fund at least quarterly, and, if the actual allocation exceeds the applicable maximum allocation limit or is less than the applicable minimum allocation limit, will achieve rebalancing to at least half the distance to the long-term target allocation levels at least annually.

Regardless of the allocation limits to U.S. and non-U.S. equities, allocations to Fixed-Income and Cash Equivalents combined shall not be less than 25% and allocations to Fixed-Income and Cash Equivalents combined shall not exceed 45% unless otherwise approved by the Board.

As stated under Roles and Responsibilities, the Director of Investments has primary responsibility for the implementation of the investment program. As such, the Board has authorized the Director of Investments and the Investment Staff to systematically rebalance the portfolio to at least half the distance to the long-term target allocation levels. The rebalancing will take place when the range limits have been breached for a sustained period of a minimum of two weeks. The goal in implementing the rebalancing policy is to minimize the transactions costs, market impact, and opportunity costs. To meet this goal, the PERA Investment Staff will consider multiple strategies including, but not limited to, using available cash, using public securities, using the most liquid public securities, using index and large portfolio vehicles, combining rebalancing with manager terminations or new manager hires, and/or funding regular cash needs above short-term cash holdings from asset classes at the upper limit of their ranges. The PERA Investment Staff will prioritize the rebalancing strategies based on the circumstances at the time. The PERA Investment Staff will include an analysis of the rebalancing strategy and report the results to the Board.

Tactical Allocation

Tactical Allocation refers to the actual allocation deviation from the asset allocation targets set above. The Director of Investments may make informed tactical allocation decisions away from the policy target weight subject to allocation range limits set by the Board.

The intention of tactical allocation is to add value and/or to reduce risk of the overall fund performance from the long-term policy targets. Tactical allocation is based on the premise that given fundamental events in the markets or economy, a deviation from the long-term allocation is beneficial to the performance of the overall fund.

All tactical decisions shall be made in a transparent manner based on sound economic information, market and economic theory, and/or other information. The Director of Investments, in making a tactical decision, shall inform the Board of the decision and provide appropriate rationale and information. In monitoring and evaluating tactical allocation decisions, a quarterly and/or annual review summarizing the impact of the decision versus the long term policy target will be reported.

Further, in order to preserve capital in the fund during economic recessions, market downturns, or other times of stress, the Director of Investments may adopt a Defensive Allocation Policy with the approval of the Board. The Defensive Allocation Policy may exceed allocations greater than 45% in fixed income and cash equivalents and an allocation less than the minimum set for public equities. The final Defensive Allocation Policy targets shall be set by the Director of Investments in conjunction with the Investment Committee.

Upon approval of the Interim Investment Committee as provided in the policy, or the Board at a regular monthly meeting, the Director of Investments may implement the PERA Defensive Allocation Policy below, after the Director of Investments or the Investment Division Staff have reasonably determined that an economic recession or a significant time of market stress is probable. The following factors will be used to determine if it is appropriate to implement PERA's Defensive Allocation Policy:

Stock Market Sentiment

- Valuation
- Dow Theory/Technical Analysis

Monetary Policy & Interest Rates

- Tight Money
- Rising Long Interest Rates

Macroeconomic Indicators

- High Inflation
- Rapid Growth

Bond Market Sentiment

- Yield Curve Analysis

Business Cycle Sentiment

- Percentage of Economic Leaders Expanding
  - Primary Leaders
  - Primary Coincident indicators
  - Primary Laggers
- Cyclical Score

After the determination for a Defensive Allocation to be implemented has been established by an affirmative vote of the Board, the policy targets and range will reflect the following:

Asset Class	Target	Min.	Max.
U.S. Equity	40%	25%	48%
Non-U.S. Equity	25%	15%	30%
Fixed Income	35%	30%	45%
Cash (STIF)	0%	0%	15%

***Maximum total of Fixed Income and Cash (STIF) cannot exceed 60%**

Upon approval by a simple majority of the Board, PERA may rescind the Defensive Allocation Policy and revert back to PERA's Strategic Long-term Allocation Policy.

Structural Allocation

The Director of Investments, in consultation with the Investment Consultant, shall determine the allocation targets for sub-asset classes, referred to as "structural" asset allocation targets in this policy.

CASH TRANSFERS

Transfer of Funds

The Director of Investments, may allocate funds (1) to or from Cash Equivalents (the STIF Account or the STO Account); provided that allocations exceeding $250 million in the aggregate during any three-week period are approved in advance by the Interim Investment Committee or (2) to or from any manager within the limits of the allocation plan, without regard to the $250 million limit.

Cash Balances to Meet Distributions

The Director of Investments, with approval of the Executive Director, may allocate funds from PERA's separately managed accounts to the applicable PERA account with the State Treasurer to assure that sufficient balances are available to meet estimated distributions in the event contributions together with existing cash balances appear to be insufficient to cover distributions and administrative expenses. Where transfers from separately managed accounts are required, the withdrawal of funds will be made in a manner that is deemed least harmful to PERA. Factors to be considered before such withdrawals are made include: the applicability of rebalancing, the amount of cash available within each separate account, recent allocations to and from each separate account including transaction costs and the need to maintain allocation levels of each asset class within the limits of the Allocation Plan and diversification of assets in an effort to maximize the investment return to PERA consistent with prudent market and economic risk at the time the transfer is made.

INVESTMENT PROVISIONS

Full discretion, consistent with this policy and contractual guidelines, is granted to all investment managers. Per UPIA guidelines, the Board, all investment managers, and investment staff are expected to perform their fiduciary duties as a prudent investor would and to conform to all applicable federal and state statutes governing the investment of retirement funds.

- Investment managers shall not purchase securities on margin, sell short, use individual stock options, puts, calls, or trade in futures contracts, unless specified in the Professional Services Agreement (the Agreement) entered into by PERA and the investment manager and approved by the Board.

- Investment managers are generally expected to be fully invested in the asset class to which they are assigned (with acceptable levels of cash as specified in their Agreement).

- The investment managers whose account is structured as a separate account shall limit their use of exchange traded funds (ETFs), commingled funds and mutual funds to those situations where a comparable investment yielding comparable investment results cannot be obtained on a separately managed basis except as provided in their Agreement. Each separate account investment manager is required to report to the Board in their quarterly and annual report the market value of ETFs, commingled funds and mutual funds if these investments are contained in the portfolio.

Exposure to risk though the use of derivatives must be consistent with the overall investment guidelines, and derivatives shall not be used to establish a leveraged position in excess of 10% of PERA's total assets under management with the exception of leverage associated with Currency Mandates and TBA securities. The percentage of leverage allowed for individual Currency Mandates shall be approved by the Board on a case by case basis. If TBAs are offset by cash or cash equivalents, the limit is the amount in the manager's guidelines.

- The STIF account return, net of the fees paid to the STIF manager, will be included in the manager's performance figures for the purpose of calculating performance fees.

- Each investment manager is required to report to the Board in their quarterly and annual report the market value of derivatives exposure in the portfolio.

- If the investment grade or the benchmark holding the security subsequently changes on an investment authorized at the time of purchase pursuant to this Policy, the investment may be held, provided that the Director of Investments notifies the Investment Manager in writing to this effect and advises the Board accordingly.

- Portfolios managed on behalf of PERA should not hold more than 10% of the outstanding securities of any single issuer, unless specified in their Agreement.

- Transactions that involve a broker acting as a "principal" where such broker is also the investment manager who is making the transaction are prohibited.

INVESTMENT REPORTING REQUIREMENTS

Within 90 days after the close of every calendar year, each investment manager must certify that its internal portfolio accounting statements reconcile with those of PERA for the year just ended. If reconciliation cannot be completed within the designated period, a list of discrepancies must be provided along with an explanation of how they shall be resolved.

An investment manager under contract to PERA must preliminarily reconcile the differences between market values of securities as reported by the Custody Bank designated by the State Treasurer for safekeeping PERA's securities and the market values as shown on the monthly report of the investment manager's records. The investment manager shall not submit a request to PERA for any payment of fees until PERA has reviewed and accepted the investment manager's preliminary reconciliation. In the event of a disagreement between PERA and the investment manager as to the market value of securities or the "market value of account" for the purposes of any fee agreement, the market value of securities or "market value of account" as determined by PERA shall prevail.

At the sole discretion of the Board, each investment manager may be expected to meet at least annually with the Board to review its portfolio and investment results in context of this Policy. The materials covered at the review should be made available to PERA staff at least one week prior to the review.

An investment manager under contract must advise PERA within 24 hours if at any time there is:

- a significant change in investment philosophy,
- a loss of one or more key personnel,
- a new portfolio manager on PERA's account,
- a change in ownership structure of its firm, or
- any occurrence which might potentially impact the management, professionalism, integrity or financial position of the management firm.

ALTERNATIVE INVESTMENTS MONITORING REQUIREMENTS

These requirements shall apply to the Real Assets and Real Estate, Absolute Return, Private Equity Programs. Through the monitoring process, PERA and consultant will extend the initial due diligence into monthly performance reports, quarterly portfolio evaluation reports and annual reviews which monitoring process regularly seeks to determine whether the is meeting the specific alternative investment class objectives and other requirements. In the broadest sense, the monitoring process is intended to determine whether the initial reasons for selecting the strategy and investment vehicle remain valid. The monitoring process should disclose whether there has been any material deviation from the investment philosophy and process; the personnel responsible for managing the investment vehicle are still in place; the organization continues to be stable; performance and risk meet expectations; and the investment vehicle manager adheres to its investment and other requirements. The underlying principle of the monitoring program is to determine whether all risks to which PERA is exposed through the use of outside investment advisors have been identified, understood, and, to the extent possible, controlled. The monitoring process focuses on four areas:

- Compliance with reporting and valuation requirements;
- Continuity of investment philosophy and process;
- Stability of personnel and organization; and
- Performance and risk management.

The Director of Investments and consultant shall aggregate investment vehicle data and perform analysis on the overall private equity portfolio, paying careful attention to individual investment vehicle allocations and strategy/sector concentrations to strive to achieve proper diversification across the specific alternative investment class. The Director of Investments and consultant also will conduct due diligence with the respective investment vehicle managers to understand the underlying drivers of performance. Additionally, the Director of Investments and consultant shall conduct portfolio reviews and on-site due diligence as necessary. Site visits will also be performed to confirm that appropriate infrastructure is in place to support the investment process. The Director of Investments and consultant shall provide the PERA Board with regular performance reports and advise the PERA Board of other matters as appropriate

PLACING MANAGERS OF TRADITIONAL ASSETS IN EQUITIES AND FIXED-INCOME INVESTMENTS ON "WATCH LIST" STATUS

A manager retention decision is very important to the continued success of a pension fund's investment strategy. As such, it should not be taken lightly nor should it be made with blind reliance on quantitative or qualitative guidelines. The ultimate decision rests in the collective judgment and authority of the Board following consultation with Staff and/or the Consultant.

The performance of the Plan's investment managers for allocations to traditional assets of stocks and bonds will be monitored on an ongoing basis. According to provisions of the Professional Services Agreements (PSAs) used by PERA, the Board may terminate an investment manager at any time with thirty (30) days notice.

Quantitative Factors Resulting in Watch List Additions

A number of factors may contribute to a manager's over- or under-performance at any given time such as - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. The following represent guidelines to be used in making a recommendation to the Investment Committee with regards to placing a traditional asset class manager on the Watch List:

Test 1 If the manager's rolling, three-year return (gross of fees) falls below the rolling, three-year benchmark return for three (3) consecutive quarters.

Test 2 If the manager's rolling, three-year return (gross of fees) for three (3) consecutive quarters ranks in the bottom third of the Consultant's peer group universe.

The quantitative guidelines above refer to a minimum time frame of three (3) years, which is preferred, but not required for inclusion on the Watch List. If a negative performance trend for a manager with less than a three year track record with PERA becomes of concern to Staff, Consultant and/or the Board, Staff will ask the Consultant to conduct a "look back" review of the manager's strategy using longer-term composite information. The strategy will be put through the same Tests as stated in the above guidelines.

At the discretion of the Investment Committee, a manager may be included on the Watch List based on these criteria. The Board may place the manager on the watch list at any time.

Once a manager is placed on a Watch List, the Investment Committee will be notified by Consultant and/or Staff and performance will be closely monitored and scrutinized. All of the qualitative criteria should be reviewed along with an explanation of the underperformance from the manager. Additional actions could include Staff meetings with the manager and a formal re-interview of the manager by the Board. A recommendation from Staff and Consultant to terminate or retain the manager must be made to the Investment Committee at the meeting following inclusion on the Watch List. If the manager is not terminated, the manager shall remain on the Watch List subject to a subsequent recommendation to the Investment Committee by Staff and Consultant as to the manager's ongoing relationship.

Expectations will be established by Consultant and/or Staff on a case-by-case basis specific to the manager for removal from the Watch List. Failure to achieve these expectations shall result in termination. Generally, one period of a rolling, three (3) year return above the benchmark or above the bottom third of the Consultant's peer group universe following placement on the Watch List will be required for a manager's removal from the Watch List. The observation process will at this point begin again.

Qualitative Factors Resulting in Watch List Additions

A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered a reason to add the manager to the Watch List. Examples include, but are not limited to, these events:

- Violation of investment guidelines
- Deviation from stated investment style and/ or shifts in the firm's philosophy or process
- Turnover of one or more key personnel
- Change in firm ownership or structure
- Significant loss of clients and/or assets under management
- Significant and persistent lack of responsiveness to client requests
- Litigation
- Failure to disclose significant information, including potential conflicts of interest
- Chronic violations of PERA's Investment Policy
- Any other issue or situation of which the Staff, Consultant and/or Committee become aware that is deemed material.

Should any of these events occur, the recommended courses of action are similar to those contained in the preceding section (Quantitative Factors Resulting in Watch List Additions). After an assessment of the nature of the problem or potential problem, the Investment Committee should then make a determination as to the appropriate course of action at the meeting after notification. Possible responses include, but are not limited to, these:

- no action,
- placement on a Watch List,
- immediate Staff meetings with the manager,
- formal re-interview of the manager by the Board,
- initiation of a Comprehensive Review, or
- termination.

Because of the subjective nature of Qualitative Analysis, both additions and removals should be handled by Consultant, Staff and the Board on a case-by-case basis.

Watch List additions will be reported to the Investment Committee at its next regular meeting. If the issue is considered serious enough, a special meeting of the Investment Committee and/or Board may be requested by the Executive Director, based on recommendations by the Chief Investment Officer and/or Investment Consultant.

PROXY VOTING GUIDELINES

The active voting of proxies is considered an integral part of the investment process and may be delegated to the discretion of the investment managers, subject to any guidelines which are established by the Board (see Proxy Voting Policy).

REVIEW PROCEDURES

The Board shall review the Policy from time to time to determine if modifications are necessary or desirable. If modifications are made, they shall be promptly communicated to all investment managers and other interested persons.

Modifications may occur due to:

- operational problems that become apparent during the investment management process.

- changes in economic prospects, plan characteristics, the development of new investment instruments or strategies, or sponsoring employer organizations.

- other causes as determined by the Board.

SIGNATURES

By signing this Statement of Investment Policy the Board through its Chair, indicates its agreement therewith.

Adopted:	June 25, 1992
Amended:	September 14, 1993
Amended:	April 28, 1994
Amended:	September 28, 1995
Amended:	January 29, 1998
Amended:	March 23, 1998
Amended:	January 27, 2000
Amended:	September 26, 2002
Amended:	July 31, 2003
Amended:	October 31, 2003
Amended:	July 1, 2005
Amended:	September 28, 2005
Amended:	December 29, 2005
Amended:	July 27, 2006
Amended:	August 31, 2006
Amended:	September 28, 2006
Amended:	June 1, 2007
Amended:	August 30, 2007
Amended:	July 31, 2008

By: Victor A. Montoya

Victor A. Montoya, Chairman NM PERA