

THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

INVESTMENT POLICY As amended September 28, 2006

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 2005, PERA administers 30 retirement plans covering state employees, municipal employees, county employees, police, firefighters, judges, magistrates, and legislators.

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 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%.

ROLES AND RESPONSIBILITIES

PERA is governed by the Public Employees Retirement Board (the Board). The primary fiduciary fiscal responsibility of the Board is to ensure that the Retirement Fund's (the 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 shall meet with the managers no less than annually. 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. 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 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 **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 retirement 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.

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 retirement 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.

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);

Alternative Investments

Subject to Approval by the Board and consistent with the guidelines attached as Appendix A:

- Real Estate and Real Assets investments, Real Estate Investment Trusts (REITs), real estate partnerships, commodities, timber partnerships and energy partnerships.
- Absolute Return (hedge funds) that 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 including funds employing market neutral strategies, event driven strategies, equity long/short strategies, global macro strategies. The funds may be registered under the Investment Company Act of 1940, and manage a minimum of \$100 million of investments in the investment strategy for which they are hired.
- 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.
- 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 should have a verifiable track record and long-term experience (approximately 5 years) working together as a team.

- Structured Debt: Collateralized Debt Obligations CDO, CLO (description to be added)
- Portable Alpha (description to be added)

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.

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 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.

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.

Tentative			
Asset Class	Sub-Asset Class Range	Strategic Asset Allocation Target	Policy Benchmark
PUBLIC EQUITY			
Domestic Equity	32% - 48%	40.0%	Russell 3000
International Equity	20% - 30%	25.0%	MSCI EAFE
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%	0%	
Real Estate	0.0%	0.0%	CPI + 6%
Private Equity	0.0%	0.0%	Private Equity Portfolio
Absolute Return (Hedge Funds)	0.0%	0.0%	Libor + 400 bps
Real Assets	0.0%	0.0%	CPI + 6%
Currency	0.0%	0.0%	100 -150bps
CASH/CASH EQUIVALENTS			
	0% - 5%	0%	

*Note: On August 31, 2006, the Board approved a long-term allocation of 15% to Alternatives: 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. Since the allocation to Alternatives will be funded over time, the allocation targets are not shown on the chart.

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 Laggards
- 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:

<u>Asset Class</u>	<u>Target</u>	<u>Min.</u>	<u>Max.</u>
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 through 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.

Each investment manager is 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.

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

By: _____



David A. Baca, Chairman NM PERA