

**INVESTMENT OBJECTIVES AND POLICY STATEMENT**

**EMPLOYEES' RETIREMENT SYSTEM  
CITY OF NEW ORLEANS**

**Restatement Date: December 1, 2004**

**By: The City of New Orleans  
Employees' Retirement System  
Board of Trustees**

## EXECUTIVE SUMMARY

- [1.] TYPE OF PLAN: Public Pension Fund
- [2.] CURRENT ASSETS: \$366,000,000
- [3.] INVESTMENT TIME HORIZON: Greater than 10 years
- [4.] EXPECTED RETURN: The greater of 5% over CPI or 9% per year
- [5.] ASSET ALLOCATION: Equities 65% (max):  
Domestic: 55%  
Foreign: 10% (max)  
Fixed Income 20% (min)  
Domestic Investment Grade  
Corp./Govt. Bonds  
Domestic High Yield  
Foreign Sovereign Debt  
Emerging Market Sovereign Debt  
Alternatives 10% (max)
- [6.] MANAGEMENT STYLES: Large Cap Core Equity  
Large Cap Value  
Mid/Lg. Cap Value  
Mid/Lg. Cap Growth  
Small/Mid Cap. Growth  
Small/Mid Cap. Value  
International  
Intermediate Fixed Income
- [7.] EVALUATION BENCHMARKS: [

]Total portfolio return to exceed performance {  
}of median balanced manager in the Russell {  
}Manager Universe

{EQUITIES} [Equities]: Large Cap Value portfolio to exceed performance of the Russell 1000 Value by 1% or a return that is in the upper quartile of the manager's respective style universe.

Mid Cap Growth portfolio to exceed the performance of the Russell Mid Cap Growth Index

by 1% or a return that is in the upper quartile of the manager's respective style universe.

Mid/Large Cap Growth to exceed performance of the Russell 1000 Growth Index by 1% or a return that is in the upper quartile of the manager's respective style universe.

Small/Mid Cap Growth to exceed performance of the Russell 2500 Growth Index by 1% or a return that is in the upper quartile of the manager's respective style universe.

Small/Mid Cap Value to exceed the performance of the Russell 2500 Index by 1% or a return that is in the upper quartile of the manager's respective style universe.

~~{FIXED INCOME}~~ **[Fixed Income]:** To exceed the performance of the LB Intermediate Aggregate Index by 1% or a return that is in the upper quartile style universe.

~~{ALTERNATIVE}~~ **[Alternatives]:** To exceed the HFRI index by 1%.

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This Investment Objectives and Policy Statement (the "Policy") was adopted by the Board of Trustees (the "Trustees") of the Employees' Retirement System of the City of New Orleans (the "System") pursuant to the power and authority granted under Section 114-280 of the Code of Ordinances, City of New Orleans, Louisiana (the "Ordinances"), which provides that the Trustees shall possess the power to invest and reinvest the assets comprising the System, from time to time (the "System Assets"), and to, among other things, set investment goals, appoint and evaluate the performance of one or more investment managers, and to determine the portion of the System Assets to be subject to the investment discretion of any such manager.

## 1. NATURE OF THE SYSTEM

The System was established to provide pension and retirement benefits to its participating members. It is a defined benefit retirement plan that is intended to be a qualified employee benefit plan within the meaning of Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and it is a governmental plan within the meaning of Code Section 414(d).

Notwithstanding any provision of this Policy to the contrary, the investment and reinvestment of the System Assets shall be made for the exclusive purpose of the members of the System and their beneficiaries and to defray the administrative costs and expenses of the System. This Policy shall be interpreted in a manner consistent with such purpose and with any limitations that may be imposed under the Ordinances or other applicable law.

## 2. INVESTMENT OBJECTIVES

The primary financial objectives of the System are to:

- a. Earn a sufficient rate of return on investments to prevent any increase in the level of any unfunded accrued liability; and
- b. Provide an aggregate rate of return in excess of the minimum target rate, 9% per annum over the next ten years.

System Assets may be invested and reinvested in equity, fixed income and/or alternative investments. Alternative investments may be more aggressive than equity investments and equity investment are expected to be more aggressive than the fixed income investments. In this context, "aggressive" relates to issues such as expected long-term rates of return and return volatility, investment vehicles, diversification among economic and industry sectors, and individual securities.

Below are the principal investment objectives of the System:

- a. **Preservation of Capital:** The preservation of capital is the primary long-term investment objective of the System. Therefore, capital gains are to be protected once earned. For example, during protracted down markets, the percentage of the portfolio invested in equities may be reduced to zero percent in order to limit

capital losses. **However, in order to reduce a portfolio below 85% equity, an investment manager must first notify the Trustees.**

- b. **Long-term Growth of Capital:** The value of System Assets should grow in the long run, consistent with the goals set forth in Section 6 of this Policy.
- c. **Fully-Funded Status:** To obtain a fully-funded status with regard to the System's accumulated benefit obligations.
- d. **Benefit Obligations:** To have the ability to pay all benefits and expenses when due.
- e. **Excess Funding:** To maintain a "funding cushion" for unexpected developments and for possible future increases in benefits expenses.
- f. **Contributions:** To maintain flexibility in determining the future level of contributions and to maximize return within reasonable and prudent levels of risk in order to minimize contribution requirements.

Investment results shall be the critical element in achieving the objectives of the System; reliance upon contributions shall be secondary.

### 3. INVESTMENT POLICY

#### **Time Horizon:**

The investment horizon of the System shall be greater than ten years, so that interim fluctuations are viewed with appropriate perspective. Similarly, the System's strategic asset allocation is based upon this long-term perspective.

#### **Risk Tolerance:**

The Trustees recognize the difficulty of achieving the System's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Trustees also recognize that some risk must be assumed to achieve the System's long-term investment objectives. In establishing the risk tolerances of the System, the ability to withstand short and intermediate term variability shall be considered.

#### **Performance Expectations:**

The desired investment performance is a long-term rate of return on assets that is at least 5% greater than the rate of inflation as measured by the Consumer Price Index ("CPI") or 9% per year. The target rate of return is based upon the assumption that future real rates of return will approximate the long-term rates of return experienced for each asset class identified in this Policy. The Trustees recognize that market performance varies and that a 5% real rate of return

over inflation may not be a meaningful standard or attained during some periods. Accordingly, relative performance benchmarks for Investment Managers are set forth in Section 6 of this Policy.

**Asset Allocation:**

The Trustees believe that the System's risk and liquidity posture is, in large part, a function of asset class mix. The Trustees have reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. Five major asset classes have been designated for the investment and reinvestment of the System Assets:

- a. Domestic equities;
- b. Fixed income;
- c. Alternative investments;
- d. Foreign equities; and
- e. Cash and cash equivalents.

Based upon the System's time horizon, risk tolerances, performance expectations and asset class constraints, an efficient or optimal portfolio has been determined and is set forth in the Executive Summary; the percentage allocation to each asset class may vary as much as plus or minus 5%, depending upon market conditions. [The Trustees shall possess the sole authority to administer the asset allocation provided for herein, including the time or times at which any rebalancing or reallocation shall be made and the extent of any such rebalancing or reallocation.]

**4. SECURITIES GUIDELINES**

**General Restrictions:**

For traditional investments (domestic equities, foreign equities and fixed income), the following securities and transactions are not authorized: letter stock and other unregistered securities, commodities or other commodity contracts, short sales or margin transactions. Options and futures are restricted, except with the approval of the Trustees. Alternative investments, the assets of which may be invested from time to time in domestic or foreign equity or fixed income, shall not be subject to the foregoing limitations.

~~{4. SECURITIES GUIDELINES}~~

**Domestic Equities:**

Each domestic equity manager is expected to adhere to the following guidelines:

- a. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major U.S. exchanges, including The NASDAQ Stock Market.

- b. Equity holdings in any one company should not exceed more than 5%, at cost, of the value of a manager's portfolio. Not more than 25% of the market value of the portfolio should be invested in any one industry category.
- c. The managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. In order to reduce a portfolio below 85% equity, however, a manager must first notify the Trustees.

**Domestic Fixed Income:**

Each fixed income manager is expected to adhere to the following guidelines:

- a. Fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, Federal agency obligations, corporate bonds, debentures, preferred stock, commercial paper, and commercial bank certificates of deposit.
- b. All investments in interest-bearing nonconvertible obligations of corporations must be rated within six highest ratings of the rating services at the time of purchase. (Any investments purchased within the four highest ratings and are subsequently downgraded below that level must be brought to the Trustees' attention within ten days of the downgrade.) Unrated securities of the U.S. Treasury and U.S. government agencies are qualified for inclusion in the portfolio. No more than 10% of the market value of the portfolio shall be rated less than BAA3 (Moody's) or BBB (S&P) quality at any time. However, if an issue is downgraded below single b by Moody's or S&P, the manager must dispose of it within 60 days of the downgrade, unless written authorization is received from the Trustees.
- c. With respect to derivatives, Sequential Pay CMOs, Super PACs and VADMs are permitted. Other forms of derivatives are prohibited without written consent from the Trustees.
- d. The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio.
- e. Holdings of individual securities shall be large enough for easy liquidation.
- f. Domestic High Yield Fixed Income managers shall keep the weighted average credit quality of their respective portfolios B (S&P) or better. Emerging market sovereign debt may be used within the Domestic High Yield Fixed Income allocation.

### **Alternative Investments:**

In recognition of the increasing opportunities available in today's and tomorrow's investment universe, the Trustees may allocate a portion of the System Assets to alternative investment vehicles which include, but shall not be limited to:

- a. Real estate;
- b. Private equity;
- c. Options;
- d. Derivatives (futures, swaps, etc.); [and]
- e. Hedge funds, which, among other things, may consist of long and short positions and/or leverage related to the underlying investments described elsewhere in this Policy.

The system shall diversify its interests in alternative investments by investing in various classes and geographic regions. ~~{ The Trustees may adopt such additional objectives, rules and guidelines as may be necessary to adequately monitor the performance of the System Assets allocated to alternative investments. }~~

### **5. SELECTION OF INVESTMENT MANAGERS**

~~{The}~~ [Subject to the provisions of Section 6 hereof, the] Trustees, with the assistance of their consultant, shall select appropriate investment managers to manage the System Assets. Any such managers shall meet the following criteria:

- a. Be a bank, insurance company or investment advisor as defined by the Registered Investment Advisors Act of 1940, as amended.
- b. Provide historical quarterly performance numbers calculated in a time-weighted basis, based upon a composite of all fully discretionary accounts of similar investment styles and reported net and gross of fees.
- c. Provide performance evaluation on the history of the firm, key personnel, key clients, fee schedule and support personnel. This information can be a copy of a recent Request for Proposal ("RFP") completed by the manager.
- d. Clearly articulate the investment strategy that will be followed and document that such strategy has been successfully adhered to over time.

## 6. CONTROL PROCEDURES

### Duties and Responsibilities of the Investment Managers:

The duties and responsibilities of each investment manager retained by the Trustees shall include the following:

- a. Managing the System Assets under its care, custody and/or control in accordance with the terms of this Policy and as may be set forth in one or more separate written agreements between the Trustees and such manager.
- b. Exercising investment discretion (including holding cash equivalents as an alternative) subject to the terms of this Policy;
- c. Promptly informing the Trustees, in writing, of any significant and/or material matters and changes pertaining to the investment of System Assets, including, but not limited to:
  - Changes in investment strategy, portfolio structure, tactical approaches and significant market value of managed assets;
  - Changes in the ownership, organizational structure, financial condition and/or professional staff of the firm; and
  - All material legal, SEC and other regulatory agency proceedings affecting the firm.
- d. Any reduction in the market value of an individual manager's portfolio by 5% or more between quarterly reports shall be explained in person, or in writing, to the Trustees and the consultant.
- e. Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the System. Each manager shall keep detailed records of said voting of proxies and related actions and shall comply with all regulatory obligations related thereto.
- f. Each manager shall utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims. Each manager shall further comply with all applicable laws, rules and regulations.
- g. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with this Policy.

- [h. As to an alternative investment, the Trustees may determine that one or more of the foregoing shall not apply and/or impose alternative control procedures.]

**Actuarial Study:**

All major liability assumptions regarding number of participants, compensation, benefit levels and actuarial assumptions will be subject to an annual review by the Trustees. This review will focus on analysis of major differences between the System's assumptions and actual experience.

**Investment Objectives:**

Investment performance will be reviewed at least as frequently as annually to determine the continued feasibility of achieving the investment objectives set forth in this Policy and the appropriateness of the provisions of this Policy.

**Monitoring Of Investment Managers:**

On a timely basis, but not less than four times each year, the Trustees shall determine:

- a. Each manager's adherence to this Policy;
- b. Any material changes in the manager's organization, investment philosophy and/or personnel; and
- c. Comparisons of the manager's results to appropriate indices, specifically:

Equity managers:      Russell 1000  
                                 S&P 500  
                                 Russell 1000 Value  
                                 Russell 1000 Growth  
                                 Russell 2500 Growth  
                                 Russell 2500 Value

Fixed income:              LB Intermediate Aggregate

The Trustees shall further determine not less than frequently than annually:

- a. Each manager's performance relative to managers of like investment style or strategy. Each manager is expected to perform in the upper quartile of the manager's respective style universe.

- b. The performance of the System Assets compared to the manager's overall performance figures to determine unaccounted for disparity between the manager's reported results and the System's actual results.
- c. Each manager shall be judged on a complete market cycle (three to five years); provided, however, that the Trustees may, in their discretion, take such action at more frequent intervals as they determine to be in the best interests of the System. For example, if a manager fails to attain his/her absolute and relative goals for three out of the five preceding quarters, the Trustees may place the Manager on probation for the next three quarters. If, in the opinion of the Trustees, performance has not improved, the Trustees may terminate the relationship and begin a search for a replacement.

**[Alternative Standards:**

In lieu of the requirements and limitations set forth in this Policy, including, without limitation, the provisions of Sections 5 and 6 hereof, the Trustees shall adopt such alternative or additional objectives, rules, limitations and guidelines as may be necessary to adequately evaluate and make alternative investments hereunder, to monitor the performance of the System Assets allocated to such investments, and to establish adequate controls and other reporting procedures with respect to such investments. Such alternative or additional objectives, rules, limitations, and guidelines may be established individually, with respect to each alternative investment acquired hereunder, or may be applicable to the class of alternative investments. Any such alternative or additional objectives, rules, limitations, and guidelines may be evidenced by written agreement between the System or the Trustees and any such investment, by an addendum to this Policy or by such other means as the Trustees deem necessary or appropriate.

**7. CONSTRUCTION; GENERAL PROVISIONS**

**Authority to Amend:] ~~{7. GENERAL PROVISIONS; INTERPRETATION}~~**

The Trustees shall possess the authority to amend or modify the terms of this Policy, from time to time, in their discretion.

**[Construction:]**

This Policy is intended to provide meaningful guidance in connection with the investment and reinvestment of the System Assets, but it is not intended to be strictly construed or to be overly restrictive given changing economic, business and investment market conditions.