

INVESTMENT OBJECTIVES AND POLICY STATEMENT

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

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

Adopted December 19, 2006

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

EXECUTIVE SUMMARY

TYPE OF PLAN: Public Pension Fund

CURRENT ASSETS: \$400,000,000

INVESTMENT TIME HORIZON: Greater than 10 years

INVESTMENT OBJECTIVE: To exceed the Actuarial Return Assumption, currently 7.75%

ASSET ALLOCATION GUIDELINES:

<u>Asset Class:</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	45%	65%
Domestic	45%	65%
Foreign	0%	10%
Developed Markets Foreign	0%	10%
Emerging Markets Foreign	0%	5%
Fixed Income	20%	55%
Domestic Government/Agency	5%	55%
Domestic Investment Grade	0%	30%
Domestic High Yield *	0%	11%
Convertible Investments	0%	5%
Foreign Investment Grade	0%	10%
Emerging Markets Foreign	0%	5%
Alternative Investments	5%	20%
Hedge Funds	5%	15%
Private Equity	0%	5%
Real Estate	0%	5%
Other Alternative Investments **	0%	10%
Cash and Cash Equivalents	0%	30%

* High yield investments shall not exceed 20% of the market value of the aggregate fixed income portfolio.

** Other alternative investments may include, but shall not be limited to inflation indexed securities, commodities, managed futures and other real assets.

EVALUATION BENCHMARKS:

Evaluation benchmarks will be used to measure the performance and level of volatility of the Aggregate Fund and its Investment Managers over a full market cycle, typically three to five years. Specifically, the performance goals shall be:

- a. To exceed the benchmark(s) selected by the Trustees that most closely corresponds to the policies and or style of investment of the assets under management.
- b. To maintain a level of volatility of risk that is consistent with the appropriate benchmark(s) selected by the Trustees. Risk will be measured by the standard deviation of quarterly returns over a full market cycle.

The evaluation benchmarks for the Aggregate Fund are as follows:

Total Fund:

The total return for the Aggregate Fund will be compared to the median balanced fund in the Russell Manager Universe and a blended market index composed of the Russell 3000, Lehman Intermediate Aggregate, HFR Fund of Funds or blended alternative investment benchmark and 90-day US Treasury bills that reflects the average asset allocation of the fund.

Equities:

The total return for the combined equities will be compared to the Russell 3000 index and the median equity fund in the Russell Equity Manager Universe.

Fixed Income:

The total return for the combined fixed income portfolio will be compared to the Lehman Brothers Intermediate Aggregate index and the median fixed fund in the Russell Fixed Income Manager Universe.

Alternative Investments:

The total return for the combined alternative investments will be compared to the Hedge Fund Research Fund of Fund index or a blended alternative investment benchmark that reflects the composition of the alternative investments.

The evaluation benchmarks above are performance measures for the Aggregate Fund and its respective asset classes. In addition to performing above the benchmark(s) for its corresponding asset class, each investment manager is expected to exceed the benchmark(s) selected by the Trustees that most closely corresponds to their style of management. The specific evaluation benchmark(s) for each investment manager are provided in the addendum to this Investment Objectives and Policy Statement.

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

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I. OVERVIEW

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 "Aggregate Fund"), 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 Aggregate Fund 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 Aggregate Fund 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 investment objectives of the Aggregate Fund (the "Fund Investment Objectives") are to:

- a. Provide a rate of return in excess of the Actuarial Return Assumption, currently, 7.75%, which shall be measured during the period described in Section II.1 hereof.
- b. Provide a rate of return that is at least 5% greater than the rate of inflation as measured by the Consumer Price Index ("CPI"), which shall be measured during the period described in Section II.1 hereof. The desired rate of return is based upon the assumption that future real rates of return should approximate the long-term historical rates of return experienced for each asset class identified in this Policy. The Trustees recognize that market performance varies and that a 5% rate of return over inflation may not be a meaningful standard or attained during some periods.
- c. Maintain a level of volatility that is consistent with a blended market index composed of the Russell 3000, Lehman Intermediate Aggregate, HFR Fund of Funds or blended alternative benchmarks and 90-day US Treasury bills that reflects the average asset allocation of the Aggregate Fund.

The specific investment objectives for the equity sector of the Aggregate Fund are to:

- a. Exceed the return from the Russell 3000 index and the median equity fund in the Russell Equity Manager Universe.

- b. Maintain a level of volatility that is consistent with the Fund Investment Objectives.

The specific investment objectives for the fixed income sector of the Aggregate Fund are to:

- a. Exceed the return from the Lehman Brothers Intermediate Aggregate index and the median fixed fund in the Russell Fixed Income Manager Universe.
- b. Maintain a level of volatility that is consistent with the Fund Investment Objectives.

The specific investment objectives for the alternative investments sector of the Aggregate Fund are to:

- a. Exceed the return from the Hedge Fund Research Fund of Funds index or a blended index of alternative investment benchmarks that reflects the composition of the alternative investments.
- b. Maintain a level of volatility that is consistent with the Fund Investment Objective.

The investment objectives above are for the Aggregate Fund and its respective asset classes. In addition to performing above the benchmark(s) for its corresponding asset class, each investment manager is expected to exceed the benchmark(s) selected by the Trustees that most closely corresponds to their style of management. The specific performance evaluation benchmark(s) for each investment manager are set forth in Addendum A to this Policy.

3. GENERAL INVESTMENT PRINCIPLES:

The following investment principles are intended to help communicate the Trustee's investment management philosophy to guide the investment management process for the Aggregate Fund.

- a. **Liquidity:** To provide sufficient liquidity to have the ability to pay all benefits and expenses when due.
- b. **Diversification:** To provide diversification to minimize the effect of potential losses from individual investments of the Aggregate Fund.
- c. **Long-term growth of capital:** To provide long-term growth of capital to meet the obligations of the System over the investment horizon, while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of an appropriate blended market index.
- d. **Fully-Funded Status:** To obtain a fully-funded status with regard to the System's Accumulated Benefit Obligations ("ABO").
- e. **Contributions:** 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.

II. INVESTMENT POLICY

1. TIME HORIZON:

The investment time horizon for the investments of the Aggregate Fund shall be greater than ten years, so that interim fluctuations are viewed with the appropriate perspective. The investment horizon for evaluating the performance of the investment managers shall be over a full market cycle, typically three to five years.

2. 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 prudent risk must be assumed to achieve the System's long-term investment objectives. In establishing the risk tolerances of the System, the Trustees believe that the System has the ability to withstand short and intermediate term fluctuations in the market value of the portfolio over an investment cycle to achieve its investment objective of exceeding the Actuarial Return Assumption.

3. ASSET ALLOCATION GUIDELINES:

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

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

Based upon the System's investment objectives, time horizon, risk tolerances and performance expectations of selected asset classes, the asset allocation guidelines for the Aggregate Fund are as follows:

<u>Asset Class:</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	45%	65%
Domestic	45%	65%
Foreign	0%	10%
Developed Markets Foreign	0%	10%
Emerging Markets Foreign	0%	5%
Fixed Income	20%	55%
Domestic Government/Agency	5%	55%

<u>Asset Class:</u>	<u>Minimum</u>	<u>Maximum</u>
Domestic Investment Grade	0%	30%
Domestic High Yield*	0%	11%
Convertible Investments	0%	5%
Foreign Investment Grade	0%	10%
Emerging Markets Foreign	0%	5%
Alternative Investments	5%	20%
Hedge Funds	5%	15%
Private Equity	0%	5%
Real Estate	0%	5%
Other Alternative Investments **	0%	10%
Cash and Cash Equivalents	0%	30%

* High yield investments shall not exceed 20% of the market value of the aggregate fixed income portfolio.

** Other alternative investments may include, but shall not be limited to inflation indexed securities, commodities, managed futures and other real assets.

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. INVESTMENT GUIDELINES:

General Restrictions:

For traditional investments in 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 as noted below for currency hedging or except with the approval of the Trustees. Alternative investment strategies, which may include, but shall not be limited to, hedge funds, private equity, real estate, managed futures, inflation indexed securities and other real assets, the assets of which may be invested in domestic, foreign equity or fixed income, shall not be subject to the foregoing limitations.

There shall be no limit on the amount of cash that may be held by a manager. It should be noted, however, that holding large amounts of cash may affect performance and that each manager will be judged on the performance of the affected portfolio, including its cash holdings.

Domestic Equities:

Each traditional domestic equity manager will be responsible 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 US exchanges, including The NASDAQ Stock Market.
- b. Equity holdings in any one company shall not exceed 10% of the market value of a manager's portfolio.
- c. No more than 25% of the market value of the portfolio shall be invested in any one industry category; such limitation shall be determined on an ongoing basis.
- d. No more than 5% of the total outstanding shares of common stock of any one corporation may be held in a manager's portfolio; such limitation shall be determined on an ongoing basis.

Foreign Equities:

Each traditional foreign equity manager will be responsible to adhere to the following guidelines:

- a. Investment managers may invest up to 20% of the market value of the portfolio under their management in equity securities from emerging market countries; such limitation shall be determined on an ongoing basis. Managers should consider the liquidity and marketability of investments within developed and emerging markets, and should be sensitive to the weight of individual economic sectors within the portfolio.
- b. Investment managers may invest up to 10% of the portfolio's market value in domestic equity securities; such limitation shall be determined on an ongoing basis. This policy should be reviewed by the manager as an opportunistic or defensive mechanism rather than a normal position.
- c. Equity holdings in any one company shall not exceed 10% of the market value of a manager's portfolio; such limitation shall be determined on an ongoing basis.
- d. No more than 25% of the market value of the portfolio shall be invested in any one industry category; such limitation shall be determined on an ongoing basis.
- e. No more than 5% of the total outstanding shares of common stock of any one corporation may be held in a manager's portfolio; such limitation shall be determined on an ongoing basis.
- f. Cash held by a manager may be in U.S. dollars or foreign currencies of the manager's choice.
- g. Residual currency exposures of the underlying international equity portfolio may be actively managed. The objectives of managing the foreign exchange exposure within the international equity portfolio are to:

- i. Add value by increasing total returns or reducing volatility of returns through hedging and cross-hedging activities; and
 - ii. Avoid currency losses in periods of an appreciating U.S. dollar.
- h. Permitted Foreign Equity Investments:
- i. Equity managers are to confine investments to common stocks and convertible securities that are directly convertible or exercisable into common stocks, including American Depository Receipts (ADR's).
 - ii. Currency option contracts may be exchange traded or OTC traded in the Interbank market. Additional instruments, such as swaps, or other derivations may be used if the risk/return trade-off is perceived by the manager to be suitable and competitive with the above-stated hedge vehicles.
- i. Permitted hedge vehicles for currency exposure management are as follows:
- i. Forward Foreign Exchange Contracts;
 - ii. Currency Futures Contracts;
 - iii. Options on Currency Futures Contracts; and
 - iv. Options on Spot Currencies.
- j. Net short foreign currency positions may not be taken in the portfolio.

Domestic Fixed Income

Each traditional domestic 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, asset backed securities, convertible securities, preferred stock, commercial paper, and commercial bank certificates of deposit.
- b. All investments in interest-bearing nonconvertible obligations of corporations must be rated within the six highest ratings of a major rating service at the time of purchase (minimum B or higher). Any investments purchased within the four highest ratings (BAA3 or BBB or higher) that 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 US 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 Collateralized Mortgage Obligations (CMO's), Super Planned Amortization Class Securities (PACS's) and Very Accurate Defined Maturities (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 US government, shall not exceed 5% of the market value of the portfolio; such limitation shall be determined on an ongoing basis.
- e. No more than 25% of the market value of the portfolio shall be invested in any one industry category; such limitation shall be determined on an ongoing basis.
- f. Holdings of individual securities shall be of a nature, type and size that should provide for sufficient liquidity to afford an orderly sale of such securities.
- g. The weighted average duration of the aggregate and individual fixed income accounts should not exceed 130% of their respective benchmarks.
- h. Domestic fixed income managers should keep the weighted average credit quality of their respective portfolios A or better (Moody's or S&P).

Domestic High Yield Fixed Income:

- a. Investments in high yield securities shall not exceed 20% of the market value of the System's combined fixed income portfolio.
- b. High yield portfolios are to be invested in debt securities (including convertibles) rated from Ba1 to Ca1 (Moody's rating) or BB+ to CCC+ (S&P rating) and in unrated securities determined to be of comparable quality by the manager. Securities not rated by at least one recognized national rating services shall not exceed 20% of the respective manager's portfolio.
- c. The exposure of the portfolio to any one issuer of corporate securities shall not exceed 5%, at the time of purchase, of the market value of the high yield manager's portfolio.
- d. Holdings of individual securities shall be of a nature, type and size that should provide for sufficient liquidity to afford an orderly sale of such securities.
- e. High yield fixed income managers shall maintain a weighted average credit quality of B or better (Moody's or S&P) in their respective portfolios.

Foreign Fixed Income:

Guidelines (a) through (f) for Domestic Fixed Income will apply in addition to with the following additional guidelines:

- a. The debt of countries, foreign agencies and foreign corporations are acceptable for investment. The manager should consider the creditworthiness and the liquidity of a potential security before making an investment.

- b. Quality ratings for corporate debt shall be consistent with those stated in item b of the domestic fixed income guidelines.
- c. Permitted hedging vehicles for managing currency exposure are as follows:
 - i. Forward Foreign Exchange Contracts;
 - ii. Currency Future Contracts;
 - iii. Options on Currency Futures Contracts; and
 - iv. Options on Spot Currencies.
- d. Net short foreign currency positions may not be taken in this portfolio.

Alternative Investments:

In recognition of the increasing opportunities available in today's dynamic investment universe to seek returns that may be less correlated to the traditional broad equity and fixed income markets, the Trustees may allocate up to 15% of the Aggregate Fund to alternative investments. The Trustees recognize that alternative investments may contain a high level of risk due to, but not limited to, such factors as potential liquidity constraints, restrictions on the ability to withdraw invested capital, concentrated positions, short positions, leverage, high volatility and the marketability of such investments. The Trustees have reviewed the potential risk/return characteristics of such investments and believe that these investments in aggregate should provide the opportunity to further diversify the System's traditional investments and the opportunity to enhance the total return of the System. These investments may include, but shall not be limited to:

- a. Real estate
- b. Private equity
- c. Hedge funds
- d. Fund of hedge funds
- e. Other alternative investment vehicles

The system shall diversify its interests in alternative investments by investing in various asset classes, geographic regions and investment styles.

5. SELECTION OF INVESTMENT MANAGERS:

Subject to the provisions of Section 6 hereof, the Trustees, may with the assistance of their consultant, select appropriate investment managers to manage the Aggregate Fund. Any such managers shall meet the following criteria:

- a. A bank, insurance company or investment adviser as defined by the Investment Advisers Act of 1940, as amended. These criteria may not apply to alternative investment managers that are not registered as investment advisers under federal or state security laws.
- b. Provide historical quarterly performance numbers calculated on a time-weighted basis, based upon a composite of fully discretionary accounts or pooled investments of similar investment styles or funds and reported net and gross of fees.

- c. An evaluation of the organization, including but not limited to the history of the firm, key personnel, key clients, fee schedule and support personnel. This information can be compiled through a manager search questionnaire completed by the manager; or in the situation of alternative investment managers, Subscription Documents, Offering Memoranda and any other relevant material provided by the manager.
- d. Clearly articulate the investment strategy that will be followed and demonstrate 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 Aggregate Fund 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 the Aggregate Fund, including, but not limited to:
 - i. Changes in investment strategy, portfolio structure, tactical approaches and significant market value of managed assets;
 - ii. Changes in the ownership, organizational structure, financial condition and/or professional staff of the firm; and
 - iii. 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 10% 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, related actions, comply with all regulatory obligations related thereto and submit annual reports to the Trustees of said proxy voting and related actions. These requirements may not apply to alternative investment managers.
- 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. For each manager selected to serve as a fiduciary adviser, such manager shall acknowledge and agree in writing to his fiduciary responsibility to fully comply with this Policy. For avoidance of doubt, this would not apply to an alternative investment manager that is not serving as a fiduciary adviser.

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 and Policy Review:

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

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 as detailed in Addendum A.

The Trustees shall further determine not less frequently than annually:

- a. Each manager's performance relative to his appropriate benchmark. Each manager is expected to perform above the median return of the manager's respective style universe.
- b. Comparisons of the level of risk in the portfolio to that of the manager's appropriate benchmark. Risk will be measured by the standard deviation of quarterly returns over a full market cycle.
- c. The performance of the Aggregate Fund compared to the manager's overall performance figures to determine any potential disparity between the manager's reported results and the System's actual results. This requirement may not apply to alternative investment managers.
- d. Each manager shall be judged over a complete market cycle, typically three to five years. However, 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.

Alternative Standards:

In lieu of the requirements and limitations set forth in this Policy, including, without limitation, the provisions of Sections 4 and 5 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 Aggregate Fund 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.

III. CONSTRUCTION; GENERAL PROVISIONS:

1. AUTHORITY TO AMEND:

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

2. CONSTRUCTION:

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

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

**ADDENDUM A
Summary of Investment Managers, Styles and Objectives**

The following is information as of December 19, 2006.

Current Investment Management Structure:

Description:	Style of Management	Benchmark:
Equity Managers:		Russell 3000 Index
Armstrong Shaw	Large Cap Value	Russell 1000 Value
Southwestern Capital	All Cap Value	Russell 3000 Value
Ariel	Small-Mid Cap Value	Russell 2500 Value
Intech	Large Cap Growth	Russell 1000 Growth
Holland	Large Cap Growth	Russell 1000 Growth
Calamos	All Cap Growth	Russell 3000 Growth
Goldman Sachs	Mid Cap Growth	Russell Mid Growth
Brandes Investment Partners	Foreign Value	MSCI World ex. US
NWQ International	Foreign Value	MSCI World ex. US
Wentworth Hauser	Foreign Growth	MSCI World ex. US
Clearbridge Advisors	Multi Cap Growth	Russell 3000 Growth
Bond Managers:		Lehman Int. Aggregate
Deutsche Asset Management	Intermediate Fixed	Lehman Int. Aggregate
Orleans Capital Management	Intermediate Fixed	Lehman Int. Aggregate
Earnest Partners	Intermediate Fixed	Lehman Int. Aggregate
ING	High Yield	Lehman High Yield
Seneca	High Yield	Lehman High Yield
Ashmore (Local Currency)	Foreign	JP Morgan ELM I
Ashmore (Dollar Denominated)	Foreign	JP Morgan ELM I GD
Alternative Investment Strategies:		HFR Fund of Fund Index
Sunneymeth (Ocean Partners)	Long/Short Equity	
Okumus	Long/Short Equity	
K2 Advisors (fof)	Fund of Funds	
Meridian diversified (fof)	Fund of Funds	
Clinton	Diversified Fixed Income Hedge	
IIG Trade Opportunity Fund	Market Neutral Credit Arb.	

Silver Creek low vol (fof)	Fund of Funds
EIF U S Power I & II	Private Equity
Paladin (private equity)	Private Equity
Shepard Investments Intl	Event Driven Hybrid
Man-AHL Diversified II	Managed Futures
Fairfield Paradigm Fund	Long/Short Equity
Canyon Value Realization	Event Driven Hybrid
Threadneedle European Crescendo	European Long/Short Equity
Everest Capital Emerging Markets	Diversified Emerging Hedge
Gramercy Emerging Market	Event Driven Emerging
Ventus Fund Limited	Foreign Market Neutral
Trafalgar Advanced Fund	European Market Neutral
Odey Japan & General, Inc.	Japanese Long/Short Equity
GEM Value International	Global Real Estate Long/Short
Cypress Management Offshore	Event Driven-Distressed
PSAM WorldArb Fund	Event Driven-Merger Arb.

DEFINITION OF BENCHMARKS:

Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market as measured by the Frank Russell Company.

Russell 3000® Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth or the Russell 2000 Growth indexes as measured by the Frank Russell Company.

Russell 3000® Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The stocks in this index are also members of either the Russell 1000 Value or the Russell 2000 Value indexes as measured by the Frank Russell Company.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values as measured by the Frank Russell Company.

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values as measured by the Frank Russell Company.

Russell Midcap® Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index as measured by the Frank Russell Company.

Russell Midcap® Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index as measured by the Frank Russell Company.

Russell 2500™ Growth Index measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values as measured by the Frank Russell Company.

Russell 2500™ Value Index measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values.

S&P 500: An index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index, with each stock's weight in the index proportional to its market value as measured by the Standard and Poor's.

MSCI AC World Free Ex US Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. As of December 2003 the **MSCI AC World Free Ex US Index** consisted of the following 48 developed and emerging market country indices: Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Malaysia, Mexico, Morocco, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Russia, Singapore Free, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Kingdom, and Venezuela.

JP Morgan ELMI tracks total returns for local-currency-denominated money market instruments in the emerging markets. A well defined set of country and instruments inclusion rules limits the **ELMI** to large, liquid emerging local markets that have not erected barriers to non-local investments. The **ELMI** is currently composed of 10 countries, each country's index weight based on the U.S. dollar value of its external trade – specifically, on its rolling average total exports plus imports over three years.

JP Morgan ELMI GD tracks total returns for U.S. dollar-denominated money market instruments in the emerging markets. A well defined set of country and instruments inclusion rules limits the **ELMI GD** to large, liquid emerging local markets that have not erected barriers to non local investments. The **ELMI** is currently composed of 10 countries, each country's index weight based on the U.S. dollar value of its external trade – specifically, on its rolling average total exports plus imports over three years.

Lehman Brothers High Yield Index is composed of fixed rate, publicly issued, non-investment grade debt registered with the SEC.

Merrill Lynch Investment Grade Convertibles excluding 144A is comprised of approximately 200 issues of convertible bonds and preferreds of investment grade quality and excludes 144a securities.

HFR Fund of Funds Indices are based upon funds selected from the over 1,700 fund of funds, equally weighted, tracked by Hedge Fund Research Incorporated.

Barclay CTA Index is a leading industry benchmark of Commodity Trading Advisors. There are currently 326 programs included in the calculation of the **Barclay CTA Index**, which is underweighted and rebalanced at the beginning of each year. To qualify for inclusion in the **CTA Index**, an advisor must have four years of prior performance history. Additional programs introduced by qualified advisors are not added to the index until after their second year. These restrictions, which offset the high turnover rates of trading advisors as well as their artificially high short-term performance records, ensure the accuracy and reliability of the **Barclay CTA Index**.

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