CITY OF PROVIDENCE, R.I.
EMPLOYEES’ RETIREMENT SYSTEM

INVESTMENT POLICY STATEMENT

City of Providence, Rhode Island
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March 2009
I. Overview & Purpose

The purpose of the Investment Policy Statement ("IPS") is to provide a framework for how the assets of the Providence Employees’ Retirement System (the “System”) will be managed and monitored. Specifically, this document will:

1. Identify key roles and responsibilities relating to the ongoing management of the System’s assets
2. Set forth a structure by which the assets of the System are managed
3. Formalize the criteria used to evaluate performance and monitor the System’s investments

The policy itself is intended to provide a guide that is to be used by fiduciaries when overseeing the management of the System’s assets. It should be flexible enough to allow the System to participate in investment opportunities while providing fiduciaries with a structure and discipline when implementing the investment strategy.

This IPS may, from time to time and in writing, be modified as appropriate.

II. Fiduciaries & Standard of Prudence

The Board members are Trustees of the System and are, therefore, fiduciaries. The standards of prudence to be used by Trustees shall be the “Prudent Man” and “Prudent Investor” standards. One of the major changes in the evolution of the Prudent Investor Concept is that the exercise of reasonable care, skill and caution is not only applied to an individual investment in an isolated context, but also to overall diversification of the total portfolio. Accordingly, the Board shall firstly apply the “Prudent Man” standard and secondly shall diversify the investments of the System unless the Board reasonably determines that, because of special circumstances, the purposes of the System are better served without diversifying. In addition, fiduciaries are required to:

1. Act solely in the interest of the System’s participants and beneficiaries
2. Oversee the management of the System’s assets for the sole purpose of providing benefits at the most reasonable cost possible
3. Diversify the System’s assets in order to help reduce the risk of large portfolio losses
4. Act with care and prudence when carrying out their responsibilities

These standards of prudence also apply to consultants, custodians, investment managers and staff who work on behalf of the System.

III. Duties & Responsibilities

Specific duties and responsibilities of the Trustees, consultants, investment managers and custodians are outlined on the following page in tabular format. However, it should be noted that the Trustees are responsible for all aspects of the System’s investments. Trustees may not absolve themselves of this responsibility by assigning specific duties to one or more of these parties.
IV. Investment Objectives

The investment objective of the System is to fully fund the plan by generating sufficient long term inflation adjusted capital appreciation while providing sufficient liquidity to meet monthly withdrawal requirements. Specific requirements of the System will include:

1. Meet or exceed the average long term required rate of return, which is currently 8.5%
2. Generate sufficient income to pay benefits
3. Earn a rate of return that meets or exceeds the System’s target benchmark

The Board members of the System recognize the long term return requirements of the System and, therefore, short term fluctuations in value are secondary to the long term objective.

V. Asset Allocation

The Fiduciaries of the System believe that the return objective can be best achieved by constructing a fully diversified portfolio and maintaining target asset class weights over long holding periods and through all market environments. It is expected that over long holding periods, a diversified strategy will play a critical role in balancing the risks of different markets in which the System will invest and help generate superior risk adjusted returns.

Asset allocation studies will be conducted using an optimization process when there is a change in the investment policy that will not be satisfied by the current allocation. Such a change may be, but not limited to a change in liquidity needs, a fully funded status or the introduction of an asset class in which the System does not currently invest. While the Board acknowledges the limitations and assumptions
inherent in conducting an asset allocation study, they will be performed in order to illustrate how changes to the existing allocation will affect the long term risk and return profile of the Plan.

When conducting asset allocation study, the Board members will first conduct an analysis of the current portfolio, which entails analyzing the structure of the current portfolio and classifying each security held by each manager according to style, capitalization, duration and sector. The existing allocation will then be used to assess the expected future return, volatility and yield. Then the allocation will be optimized to assess whether there is a more efficient portfolio in which the Plan could invest to reach the objectives outlined before.

Currently, the system’s target weights are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target</th>
<th>Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td>37.0%</td>
<td>32.0% - 42.0%</td>
</tr>
<tr>
<td>International Equities</td>
<td>14.0%</td>
<td>9.0% - 19.0%</td>
</tr>
<tr>
<td>Fixed Income (including International)</td>
<td>34.0%</td>
<td>29.0% - 39.0%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>12.0%</td>
<td>7.0% - 17.0%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

VI. Revenue Enhancing Programs

The Trustees will engage in two revenue enhancing programs to increase the annual cash flows to the System. They are commission recapture and securities lending.

1. Commission Recapture

The Trustees acknowledges that brokerage commissions are a System asset and, therefore, adopts the following policy regarding the distribution of brokerage commission business generated by investment managers to manage assets of the System. The Trustees have approved the commission recapture program and has established the requisite relationships with a Commission Recapture Manager in order to benefit from security transactions.

The Trustees recognize that commissions costs are only one component of execution costs and that managers should follow a best execution strategy. The Trustees recognize that trading style, transaction order flow, broker selection decisions and research requirements of managers should not be adversely affected by this program.

Eligible investment managers are encouraged to participate in the commission recapture program, provided commissions are competitive. Investment managers are not precluded from using brokerage firms with whom they have a “soft dollar” arrangement, provided said firms offer competitive execution services.

2. Securities Lending

The securities lending program actively lends securities through a single securities lending program to qualified borrowers in order to provide incremental income to the System. Borrowers in return provide
liquid collateral in exchange for the right to borrow securities. Securities shall be fully collateralized at all times. Cash collateral shall be invested in a pool vehicle selected by the Trustees on which interest is paid. A negotiated portion of this interest shall be paid to the borrower while the balance shall be kept by the lending agent and the System.

VII. Appropriations & Rebalancing

It is the policy of the System to use at least the majority of the annual appropriations to replenish the core bond manager and in subsequent months when benefit payments come due, use that manager as a source of funding for the monthly benefit payments. Thus, it is typical for the bond allocation to be at times below the policy range indicated in the prior section. Appropriations need not be sent to the core bond manager if, due to market conditions, the bond manager is at or above the policy range at the time the System receives the appropriation. In this situation, the appropriation will be used to rebalance the portfolio to within the asset class policy ranges.

The Trustees will review the current portfolio weightings relative to the target weighting on a monthly basis or whenever performance reports are disseminated and rebalanced as they see appropriate. The decision to rebalance will depend on the timing and size of the benefit payments, market conditions and the portfolio weightings relative to the policy ranges. Forced scheduled rebalancing to target weights can create unnecessary transaction costs and it is, therefore, not advisable.

VIII. Performance Benchmarks

To facilitate the periodic reporting and to provide a relative measure to gauge success, performance benchmarks are approved by the Board. These benchmarks include, but not limited to, the broad asset class benchmarks used in the calculation of the policy benchmark. The approved performance benchmarks for asset classes are shown in the table below.

In addition to benchmarks for asset classes, the System employs benchmarks for each one of its investment managers. The individual investment manager benchmarks are approved by the Board and addressed in the investment manager guidelines.

Approved Performance Benchmarks

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>Customized *</td>
</tr>
<tr>
<td>International Equity</td>
<td>Customized *</td>
</tr>
<tr>
<td>Private Equity</td>
<td>S&amp;P 500 plus 3%</td>
</tr>
<tr>
<td>Fixed Income (Including International)</td>
<td>Customized *</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>T-Bills plus 4%</td>
</tr>
<tr>
<td>Total Portfolio</td>
<td>Customized *</td>
</tr>
</tbody>
</table>

* This index is a weighted average of the individual components of the asset class(es).
IX. Investment Manager Selection

Investment managers chosen to manage assets on behalf of the Providence Employee’s Retirement System will be chosen according to a formal competitive process. Requests for Proposal (RFP’s) will be issued by the Consultant on behalf of the Board and candidates will be given a minimum of two full weeks to obtain and complete the RFP’s. In order to be considered, candidates must:

- Be a registered investment advisor pursuant to the Investment Advisors Act of 1940, or be exempt from registration.
- Have a minimum five year performance history in the subject product as of the most recent quarter preceding the date of issue of the proposal. (Experience at prior organizations is applicable.)
- Have experience managing investments for tax-exempt or state, municipal or other governmental defined benefit plans.
- Have been in operation for at least five years as of the most recent quarter preceding the date of issue of the proposal as an investment management organization as determined by the firm’s SEC 1940 registration.
- Have at least $200 million in tax-exempt institutional assets in the asset class for which the proposal was issued.
- Have outperformed on a gross of fee basis, the corresponding index on a three and five year time period as of the most recent quarter preceding the date of issue of the proposal.

The Trustees have the ability to override any of the minimum criteria shown above if it is deemed to be in the best interests of the System.

The Consultant will make a formal presentation to the Board detailing the risk and return characteristics of the candidates that responded and assist the Board in selecting finalists on which the Consultant will perform additional due diligence. These candidates will make a presentation to the Board and after doing so, the Consultant may recommend that one be hired by the Board.

This policy statement should make clear that it the Trustees are solely responsible for selection, monitoring, evaluation and removal of all investment alternatives made available to the Plan participants. The System may hire consultants and advisors to assist it in those activities but nothing changes the ultimate responsibility of the Trustees. While any consultant or advisor may make recommendations for action by the Trustees, the Trustees are free to act in any regard within the scope of its responsibilities with or without prior advice or recommendation from any consultant or advisor. A recommendation from such advisors is not a prerequisite for action by the Trustees.
X. Portfolio Monitoring Procedures

The Trustees will meet with the Consultant no less frequently than quarterly to review portfolio performance, review portfolio weights relative to target weights and manager’s performance.

The Investment Managers employed by the System will be issued investment manager guidelines and they will be monitored at two levels of contract review: Watchlist and Probation, the latter being a more heightened level of review. The Consultant will recommend to the Board members when a manager should be placed on or removed from Watchlist or Probation. The Consultant and Board members acknowledge that each situation in which a manager could be placed on Watchlist or Probation is unique. The specific conditions under which a manager could be placed on Watchlist or Probation will be outlined in the manager-specific investment guidelines. However, general conditions that could warrant such action include, but are not limited to:

- Underperformance relative to an appropriate passive benchmark
- Organizational Changes
- Deteriorating Performance versus Peers
- Deviation from Style
- Poor Execution of Trades

Should the manager’s performance not improve over a reasonable time period, considered to be one year, probation may be continued beyond the one-year period if decided by the Board. Alternately, the Consultant may recommend any one of the following:

- Reduce assets under management
- Revise investment guidelines
- Renegotiate management fees, or
- Dismiss the manager

Should it be deemed to be in the best interest of the System, the Consultant will recommend termination after a careful review of the manager’s performance, portfolio structure and the market environment. Before a manager is officially dismissed, the Consultant will recommend to the Board a plan of action for managing (internally, externally, or in combination) or liquidating the assets.

Circumstances may warrant that the Trustees take immediate action to remove a fund. Therefore, the Trustees reserve the right to bypass the course of action outlined above and remove a fund immediately if deemed prudent and in the best interests of the Plan participants.

XI. Proxy Voting Policy & Corporate Governance

The Board has determined that the investment managers will vote all proxy votes on behalf of the System.

The Board hired the services of ISS to assist the Board in their efforts to identify and potentially divest from companies doing business in Sudan.
As an addendum to the investment policy statement of the Providence Employees Retirement System dated March 2009, the target weights as shown on page 3 of the original policy statement will be modified as outlined below to reflect the new portfolio target weights as voted on and accepted by the Board on June 23, 2011:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target</th>
<th>Policy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td>39.25%</td>
<td>34.25% - 44.25%</td>
</tr>
<tr>
<td>International Equities (Developed Markets)</td>
<td>13.25%</td>
<td>8.25% - 18.25%</td>
</tr>
<tr>
<td>International Equities (Emerging Markets)</td>
<td>1.50%</td>
<td>0.00% - 3.00%</td>
</tr>
<tr>
<td>Fixed Income (including International)</td>
<td>29.00%</td>
<td>24.00% - 34.00%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>13.00%</td>
<td>8.00% - 18.00%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>4.00%</td>
<td>0.00% - 6.00%</td>
</tr>
</tbody>
</table>

All other parameters shall remain unchanged and adhered to as set forth in the original Investment Policy Statement.