SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As amended and adopted on June 17, 2011

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MISSION

The South Carolina Retirement System Investment Commission will fulfill its fiduciary responsibility by prudently managing all assets held in trust for the sole benefit of the participants and beneficiaries of the South Carolina Retirement Systems. It will seek superior long-term investment results at a reasonable level of risk.

VISION

The vision of the Commission is to be a world class investment organization that pursues strategies that contribute positively to the financial health of the South Carolina Retirement Systems.

PURPOSE

The purpose of the Statement of Investment Objectives and Policies ("SIOP") is to establish investment and performance objectives, policies and guidelines, roles, responsibilities, and delegation of authority for the management of assets of the South Carolina Retirement Systems ("Retirement System"), which includes:

South Carolina Retirement System,
South Carolina Police Officers Retirement System,
Retirement System for Members of the General Assembly of the State of South Carolina,
Retirement System for Judges and Solicitors of the State of South Carolina, and
National Guard Retirement System.

At least annually, the Retirement System Investment Commission ("Commission") will review the SIOP to determine their continued applicability. If the liquidity needs, actuarial return assumptions, or the market risk/return expectations change, the SIOP will be reassessed in accordance with South Carolina law and Commission objectives.

The SIOP represents the overall guidelines that apply to the Retirement System's Total Portfolio ("Portfolio"). All decisions that affect the management of the Portfolio must comply with the guidelines contained within this document and be consistent with the laws of the State of South Carolina.

INVESTMENT POLICY

Investment Return Guidelines

This policy defines the goals of the investment program. It is the Commission's responsibility to implement the investment program with assistance from the CIO and the Commission's investment staff ("Investment Staff"):

- The Policy Asset Allocation's goal is to yield the most appropriate risk-adjusted return with consideration to achieving the Commission's objectives.
- The desired rate of return for the Portfolio is a return greater than the return of the Portfolio's Policy Asset Allocation.
- The desired rate of return for each asset class is any return greater than its benchmark return.
- The acceptable level of risk for an asset class is determined in the context of the Portfolio, rather than simply the intrinsic risk of the asset class.

Policy and Strategy Asset Allocation Mix

Based on the Commission's determination of the appropriate risk tolerance for the Portfolio and its long-term return expectations, it has authorized the following broadly defined Asset Allocation Policy Mix:

Policy Mix	**Percent of Total Fund**
Public Equity Investments*	0-70 %
Fixed-income Investments	5-100 %
Alternative Investments*	0-50 %
*Equity investments will not exceed 70% of the Portfolio's total assets.	

Allowable Investments

As it pertains to the above referenced asset classes within the Portfolio, exposure may be gained through investments in derivative instruments including, but not limited to futures, forward contracts, swaps, and options per the terms of each manager's[1] specific governing documents and in accordance with the limitations outlined in the Annual Investment Plan (AIP). In addition to derivative instruments, leverage may be utilized in the implementation of these asset classes in accordance with each manager's specific governing documents and in keeping with the investment limitations outlined in this policy. Also allowed are exchange traded funds (ETFs), warrants, rights, convertible bonds, and preferred stock. Currency hedges may also be used for non-dollar exposures within each respective asset class as outlined in each manager's governing document. Absolute Return investment strategies may also be employed per the

[1] For purposes of the SIOP, references hereafter to "manager" will include an investment manager, investment advisor, general partner, managing member, or fund, as applicable.

terms set forth in the AIP; however, the majority of Absolute Return strategies would be expected to exist within the Alternative asset classes.

In addition to the instruments outlined in the paragraph above, for every asset class, a variety of investment structures may be utilized depending on the nature of a particular investment. Per the terms of the investment limitations outlined in this policy, these structures may include, but not be limited to, mutual funds, limited partnerships, limited liability companies, strategic partnership, trusts, commingled vehicles, fund-of-funds, and separately managed accounts[2] in which assets may be held by an external custodian who is selected and monitored by the external manager or general partner.

General Provisions Relating to the Alternative Investment Program

South Carolina law, the Employee Retirement Income Security Act of 1974 ("ERISA"), and the Uniform Management of Public Employee Retirement Systems Act of 1997 ("UMPERSA") each have similar or compatible, albeit not identical, definitions and responsibilities of fiduciaries with respect to managing and investing assets of retirement systems. For clarity and consistency it is prudent for the Commission to declare standards for interpretation of certain terms used in these sources.

For purposes of investments by, and implementation of, the Alternative Investment Program, the "Plan Assets" of the Retirement System include the System's ownership interest in the following entities (e.g., a share or a unit), but do not include the underlying assets owned by the entity itself:

(a) A registered investment company;
(b) A registered security that is widely held and freely transferable;
(c) an entity in which "benefit plan investors" hold less than 25% of the equity interest as defined and determined by ERISA §3(42);
(d) An "operating company" engaged in the production or sale of a product or service other than the investment of capital;
(e) A "real estate operating company" or REOC (which actively manages and develops real estate consistent with U.S. Department of Labor ERISA regulations);
(f) A "venture capital operating company" or VCOC (which actively manages "venture capital investments" consistent with U.S. Department of Labor ERISA regulations);
(g) A private investment partnership or offshore investment corporation the offering memorandum of which allows for the entity to take both long and short positions, use leverage and derivatives, and invest in many markets.

Where the Commission invests in an entity that does not hold Retirement System's assets, the Commission's decision to invest in the entity will be subject, inter alia, to the South Carolina fiduciary rules set forth in S.C. Code Ann. §9-16-10 et seq., and the ethics laws set forth in S.C. Code Ann. §8-13-110 et seq., but the transactions engaged in by the entity generally will not be subject to the same rules.

On occasion the Commission will need to interpret statutes while implementing and administering the investment program. Whenever the South Carolina statutes are substantively similar to provisions of ERISA

[2] For purposes of the SIOP, reference hereafter to "fund" will include a limited partnership, limited liability corporation, or commingled vehicle, as applicable.

or UMPERSA, and to the extent practicable and consistent with South Carolina law and other principles of general application relating to public pension plans, the Commission intends to use (1) pertinent provisions of ERISA; (2) interpretive rules and regulations of the U.S. Department of Labor relating to ERISA; and (3) the Reporter's official comments to UMPERSA for guidance.

Terrorist Sponsors: The Commission will not invest in any security or obligation issued by a company or a corporation that is a known sponsor of terrorist organizations or of a company domiciled in a country that is a recognized sponsor of terrorism or terrorist organizations as based on reports from the Office of Terrorism and Financial Intelligence of the Department of Treasury and the country Reports on Terrorism by the Office of the Coordinator for Counterterrorism of the U.S. Department of State.

Periodic Reports to Commission

The Commission will monitor performance through periodic reports that will allow assessment of broad policy decisions, strategic allocation decisions, and implementation decisions. Performance, with the exception of private market investments, will be calculated using time-weighted rate of return methodology. Performance for private market investments will be calculated on a dollar-weighted basis.

- At least quarterly, the CIO will submit a report to the Commission addressing the Retirement System's success in accomplishing the investment objectives based on the benchmarks described by policy at the total fund level and each asset class level. This report may also include a brief of due diligence meetings held throughout the quarter for existing managers. Certain managers may be excluded when the disclosure of material information could obstruct the manager's performance or jeopardize the ability of the Commission or Investment Staff to implement a portion of the AIP or achieve investment objectives. The CIO will also provide the Commission with a brief commentary which summarizes thoughts on the market and key strategic decisions made in the quarter, along with justification for those decisions.
- At least every five years, a formal, external asset/liability study will be prepared for the Commission, and it may include an evaluation of the Commission's investment strategy as set forth in S.C. Code Ann. §9-16-320(G). Annually in the interim, the CIO will submit an opinion to the Commission that addresses the continued prudence of the current asset mix in achieving the RRO.
- Periodically, a cost effectiveness external consultant will be engaged to report to the Commission regarding the Retirement System's success in minimizing implementation cost without negatively impacting performance.

Manager Search Process

The Commission may, at its discretion, retain investment managers to manage portions of the Retirement System's assets. The Commission will not consider any manager for selection without first setting a target allocation to a particular asset class and determining that a manager is needed to implement that allocation strategy. Investment managers will ordinarily be selected from financially sound organizations with proven records of managing funds with characteristics appropriate for the risk/return profile of the Portfolio. The recommendation will be summarized in a memo to the Commission for managers considered for hire. The selection process outlined below will ordinarily be used for a manager search.

Phase I – Initial Information Sourcing and Analysis

In addition to the general minimum criteria outlined in the SIOP and AIP, the CIO, Investment Staff, and/or Consultant (collectively referred to as "Investment Team") may choose to establish additional criteria that managers must comply with before consideration as a candidate. As the Investment Team receives sourcing documents from potential candidates it will conduct qualitative and quantitative analysis to determine which candidates are best suited for the mandate. The Investment Team may also choose to host meetings with potential candidates as part of the initial due diligence process.

Phase II – Onsite Due Diligence

After Phase I, the Investment Team will have narrowed the list of potential candidates to a group of candidates to be considered for further due diligence. The Investment Team may then travel to the candidate's offices for onsite due diligence. The purpose of these meetings is to gain a more thorough understanding of the candidates' investment philosophy, quality of professionals, investment process, costs associated with an investment, risks associated with an investment, and the controls in place to mitigate potential risks.

Phase III – Manager Approval and On-Boarding Process

After Phase II, the Investment Team will have narrowed the list of candidates to a group of finalists to be considered for inclusion in the Portfolio. The Investment Team will then present its recommendations to the RSIC Investment Committee, which is comprised of Investment Staff appointed by the CIO. If the Investment Committee approves the Investment Team's recommendation, the Investment Team may then present the recommendation to the Commission for approval. If the Commission approves the Investment Team's recommendation, the Investment Staff may begin the on-boarding process.

Investment Manager Criteria

The screening criteria discussed above will be developed at the inception of each search with an expectation that each manager considered for placement will be evaluated on certain basic requirements:

- Managers must provide a verifiable and documented performance record for the strategy under consideration for a minimum of three years. In special situations (start-ups or new products of managers), the Commission may consider performance generated by a manager at a prior firm or the compelling logic behind a new strategy. Longer performance records are desirable. Consistency and the ability to add value over longer time periods will be important considerations.
- Managers with experience managing portfolios of similar size and complexity to the Retirement System's placement will generally be preferred. Higher levels of assets under management will be required for certain placements, such as passively managed indexes. For placements with smaller cap managers or other distinctive asset classes or logic, the Commission may consider a broader range of values regarding assets under management. Managers may need to demonstrate that the assets under management have not increased beyond their ability to effectively manage the placement given the strategy under consideration.
- Candidate firms that are subsidiaries or branches of other organizations should devote their time and resources primarily to the management of tax-exempt assets. Candidate firms that display a relatively new strategy may vary from the size and durational minimums of the two preceding paragraphs.

- Investment Staff should be of sufficient depth and breadth to perform the ongoing duties of the firm and proficiently execute its investment philosophy. Each principal should have a demonstrated history of portfolio management with experience germane to the strategy.
- Managers must express a willingness to meet at least annually with the Investment Staff in South Carolina. Strong communication skills and responsiveness to specific client needs are desired qualities.
- Management firms that present unique insight and perspective within the discipline under consideration will be preferred. Firms will be evaluated on the logic of their security selection and portfolio construction techniques, risk control methods, research processes, and the consistency with which they apply their own standards.
- The firm should be professionally managed and have a long-range business plan. The plan should recognize a limitation to the size that the organization can achieve (assets under management and number/type of clients) and still provide the client with the service and attention required. Additionally, there should be a separate, established maximum for assets under management in many specialized strategies under consideration.
- Fees must be competitive relative to an appropriate peer group of managers for a particular strategy with similar performance expectations.

Strategic Partnerships

The Commission may elect to establish Strategic Partnerships with certain asset managers who are believed to possess specific expertise, knowledge and capabilities for a limited or broad range of investment strategies. The Strategic Partnerships are utilized to implement investment ideas with the specific investment manager of the related Strategic Partnership. Each Strategic Partnership will maintain and adhere to an investment plan, which will be reviewed by the Commission periodically. The Commission may delegate certain day-to-day responsibilities to the CIO and/or Deputy CIO with respect to the Strategic Partnerships.

The investment approval and evaluation process within the Strategic Partnership is similar to that followed by direct investments by the Commission as described under the Manager Search process. Once an investment idea is sourced, the investment evaluation or due diligence process begins. The investment must pass each of the following due diligence steps before an investment can be made:

1. Evaluate the investment in regard to the Portfolio’s overall asset allocation.
2. Meet certain return and risk characteristics, and size qualifications as deemed to be appropriate by the CIO or Deputy CIO in relation to the Strategic Partnership and Portfolio.
3. The investment is evaluated by an assigned team, including the RSIC Co-Investment Team, which is comprised of Investment Staff appointed by the CIO. The RSIC Co-Investment Team is then responsible for presenting its recommendation to the RSIC Investment Committee for approval.
4. Once approved by the RSIC Investment Committee, the investment must pass final review by the Strategic Partnership Investment Committee before becoming an eligible investment.
5. After being approved by the Strategic Partnership Investment Committee, the investment must be reviewed for legal sufficiency for the Portfolio.

Asset Allocation Monitoring and Rebalancing

Among the decisions the Commission can make, asset allocation has the most significant impact on Portfolio returns; therefore, maintaining the target allocations within the Portfolio is crucial to long-term success, both in terms of returns and risk profile. It is important, however, to balance the cost of deviating from the target allocations against the real costs of actively rebalancing, i.e., taking funds away from one asset class and moving it to another asset class. Active rebalancing generates costs such as trading commissions, market impact, and potential market timing costs. These costs are to be taken into consideration when developing a plan to rebalance the Portfolio.

The general rebalancing policy depends on ranges around each target allocation, both for asset class targets and for the manager-level targets within each asset class. When an allocation reaches its minimum or maximum allocation, as specified in the AIP, it will be rebalanced to return the allocation to the established range.

There are three hierarchical levels to the asset allocation and rebalancing policy:

- Asset class
- Sub-asset class
- Manager

Each level will be reviewed at least quarterly to determine whether it is within its allocation range as delineated in the AIP. The review will begin at the top level (asset class) and proceed downward to the manager level. Each of the higher levels may impact the levels below it. The impact of the higher level activity will be modeled before conducting the lower level analysis.

In the event that any of the asset and sub-asset class allocation levels move outside of their target range, the Commission and the CIO will determine the rebalancing action most appropriate for the Portfolio. The Commission delegates to the CIO or his designee the authority to execute securities transactions to implement rebalancing, cash management, or other authorized investment strategies within target ranges. In some cases, no action will be the appropriate response.

Manager Terminations

Termination of a manager may occur whenever the Commission determines that its objectives can more efficiently or effectively be met by the selection of another manager or under a different management mandate. The Commission retains the right to terminate a manager with or without cause and at any time. Circumstances which suggest an immediate review and a possible termination include, but are not limited to:

- Manager changes strategy or investment style;
- Critical elements of the investment process have broken down;
- Transaction costs are unreasonable;
- Management fees are higher than similarly styled managers for similarly sized portfolios;
- Manager is unable to meet the performance expectations within the risk tolerance specified;
- Material organizational or personnel changes;
- Manager is not complying with the applicable provisions of the Commission's SIOP;
- Manager is not complying with the applicable provisions of the Commission's AIP.

Execution of Security Trades

The Commission expects the purchase and sale of its securities to be conducted in a manner designed to receive the best combination of price and execution. The Commission will evaluate policies that provide for the most efficient and effective trading process.

Investment Manager Guidelines

Full discretion in implementing the investment strategy, within the parameters of all applicable guidelines described herein, is granted to the Commission's investment managers regarding the selection of securities and the timing of transactions within the portion of the Portfolio allocated to each manager. Unless otherwise approved and stated in the contract with the manager, the following guidelines apply to the asset classes below where assets are invested in separately managed accounts.

Compliance with all applicable guidelines must be monitored by the investment managers on a regular basis (monthly or more frequently when market conditions warrant) and based on then current market values. Securities that, at purchase, would move the portfolio out of compliance with these guidelines, based on the investment manager's most recent valuation, may not be purchased.

In the event that a portfolio moves out of compliance with the applicable guidelines, through market conditions or other changes outside the control of the manager, the manager must bring the portfolio composition back into compliance within 45 days or make a written request to the Commission for a compliance waiver.

Domestic Active Equity Manager Guidelines

The guidelines listed below will apply to all actively managed domestic equity portfolios, unless otherwise specifically noted or waived by written consent:

- Domestic equity purchases are limited to common stocks, preferred stocks, mutual funds, Exchange Traded Funds ("ETFs"), American Depository Receipts ("ADRs") and convertibles that are publicly traded. Exceptions must be approved by the Commission in advance;
- Managers should disclose whenever a single holding accounts for more than 6% of the allowable equity portion of the portfolio managed for the Retirement System at market value;
- The Retirement System's domestic equity portfolios are expected to be fully invested. Managers are encouraged to utilize appropriate ETFs relative to the portfolio benchmark. In no case shall manager's cash exceed 5% after equitizing available cash in an appropriate ETF;
- No single holding in the Retirement System's Portfolio shall account for more than 5% of the outstanding common stock of any one corporation;
- The purchase of ADRs, stocks or convertibles in foreign companies which are publicly traded securities may be held by each domestic stock manager in proportions which each manager deems appropriate, up to 10% of the portfolio at market value (foreign companies are defined as incorporated outside of the U.S. and performing a predominant portion of their business outside of the U.S.). Securities purchased that are part of the manager's domestic benchmark are excluded from the 10% limit;
- Convertible bonds, convertible preferred stocks, warrants, rights, and ETFs may be purchased as equity substitutes as long as they meet the equity guidelines listed above; and,
- Short selling is permitted.

Passive Equity Manager Guidelines

Passive strategies are expected to have characteristics substantially similar to the underlying benchmark. For example, a large cap passive equity portfolio must have substantially similar capitalization and sector exposure to the underlying benchmark.

International Equity Manager Guidelines

The guidelines listed below will apply to all international equity portfolios, unless otherwise specifically noted:

- Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the custodial bank;
- Managers may purchase or sell currency on a spot basis to accommodate securities settlements;
- Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions;
- International equity portfolios are expected to be fully invested. Managers are encouraged to utilize suitable ETFs relative to the portfolio benchmark. In no case shall manager's cash exceed 5% after equitizing available cash in appropriate ETFs;
- Equity securities should be issued by corporations chartered outside the U.S., although the manager has latitude to hold other securities provided that such investment is consistent with attainment of the portfolio's investment objectives and does not exceed 10% of the portfolio's market value. American Depository Receipts ("ADRs") do not apply toward this 10% limitation;
- The number of issues held and their geographic or industry distribution will be at the discretion of the investment manager, provided that equity holdings in any one company (including ADRs, common stock and convertible securities) do not exceed 6% of the market value of the portfolio. Additionally, bonds of the companies in question should be included in the exposure calculation if held in the manager's portfolio;
- Managers with developed country international equity mandates may invest up to 10% of their portfolio(s) in the non-developed markets; and
- Managers with an emerging markets equity mandate may invest up to 10% of their portfolio(s) in markets not deemed to be emerging markets, subject to the guidelines listed above.

Core Fixed Income Manager Guidelines

The guidelines listed below will apply to all core fixed income portfolios, unless otherwise specifically noted. In all Fixed Income strategies, "Investment Grade" is defined as: a rating of BBB- or higher from S&P, BBB- or higher from Fitch, or Baa3 or higher from Moody's.

- Core fixed income investments may include U.S. Government and Federal Agency obligations, TIPS, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities, bank loans, fixed income, and other instruments deemed prudent by the investment manager;
- No more than 6% of the market value of the domestic fixed income assets may be invested in the debt securities of any one issuer, except that no limitations on issues and issuers will apply to obligations of U.S. Government and Federal Agencies;
- Issues below Investment Grade at the time of purchase may be purchased up to a maximum of 20% of the portfolio;

- Notwithstanding the above, each manager is allowed to hold a maximum of 5% of the portfolio in bank loans;
- Managers may invest up to 20% of their portfolio in non-U.S. fixed income securities regardless of currency and may hold foreign currency;
- The overall average quality of each core U.S. fixed income portfolio must be rated Investment Grade or higher by Moody's, Fitch or Standard & Poor's. Split-rated securities will be measured using the lower ratings. Non-rated issues, excluding bank loans, may be purchased up to a maximum of 10% of the Portfolio. These quality restrictions will not apply to a manager that is engaged by the Commission to manage dedicated high yield fixed income portfolios;
- The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager. Active bond management is encouraged as deemed appropriate by the investment manager;
- The average duration (interest rate sensitivity) of an actively managed portfolio must not differ from the passive benchmark's duration by more than plus or minus 50% of the benchmark duration;
- Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure; and
- Any mortgage-backed securities ("MBS") will be subject to the constraints listed below:
    - Agency fixed and floating rate pass-throughs, U.S. Treasury securities, and cash equivalents can be held without limitation;
    - Inverse floating rate, interest only ("I/O"), principal only ("P/O"), and accrual CMOs in aggregate will be limited to 15% of the mortgage securities portfolio, with no more than 5% of the portfolio invested in accrual CMOs. In the event that other types of mortgage-related securities with risk characteristics similar to those in this category are developed, the manager will inform the CIO of those securities and they will be included in this 15% limitation;
    - All other types of mortgage-related securities not explicitly cited herein will be limited to an aggregate 20% of the portfolio; and
    - The Commission recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. However, the manager is expected to calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio's compliance with these guidelines.

Short Duration & Cash: In response to the historically low interest rate environment in 2010, the Commission approved an allocation to a new sub-asset class designed to provide Investment Staff with the ability to pursue yield-enhancing investments to increase the returns to the Portfolio. In January 2010, the Commission authorized Investment Staff to internally manage a short-duration fixed income asset class in order to pick up incremental yield as well as to match specifically identified short-term liabilities. The short duration internal allocation may invest in Treasuries, Agencies, Commercial Paper, Repo's, and other similar money market type securities in accordance with South Carolina law.

Also, the Commission recognized that the actual target weight to this asset class should be driven by both the actual market opportunities at any one point in time as well as by the ongoing liquidity needs of the Portfolio, rather than by a static target. As a result, while the combined target weight for both Cash and

Short Duration is 10% of the Portfolio, the target mix of these will be determined by the actual investments. For example, if the Portfolio holds 4% Short Duration investments, then the target cash exposure will be 6% of the Portfolio. The "Cash" portion of this strategy will be used to meet daily liquidity needs, while the "Short Duration" portion will be used to pick up incremental yield as well as to match specifically identified short-term liabilities.

Internally managed Short Duration and Cash portfolio goals and guidelines:

- To outperform the 0-3 Yr Merrill Lynch Treasury Index
- 100% US dollar securities
- Includes but is not limited to, Treasuries, Agencies, Commercial Paper, Repo's and other money market and fixed income securities eligible under South Carolina law
- Maximum final maturity : 3 years
- Maximum Issuer Weighting : 5%
- Minimum Average Credit Quality : Investment grade or better at the time of purchase

External managers may be used for short duration mandates with the following goals and guidelines:

- To outperform the 0-3 Yr Merrill Lynch Treasury Index
- To focus on short-term, low volatility high yield debt with an expected maturity of approximately 12-24 months
- 100% US dollar securities
- Includes calls, tenders, take-outs, bank loans, unregistered 144As
- No exposure to Credit Default Swaps
- Opportunistic investments in investment grade securities, converts, treasuries
- Maximum final maturity : 3 years
- Maximum Issuer Weighting : 5%
- Maximum Industry Weighting : 15%
- Maximum Sector Weighting : 25%
- Minimum Average Credit Quality : B+ (No CCCs)

High Yield Fixed Income Manager Guidelines

The fixed income guidelines described above will apply to high yield fixed income managers, unless otherwise specifically noted:

- Managers may invest up to 40% of their portfolios in non-U.S. fixed income securities unless limited by their contract;
- Managers are allowed to hold a maximum of 10% of the portfolio in bank loans;
- The average credit quality for the portfolio should be no lower than B-, average quality should be calculated using the lower of split ratings; and
- Managers may not purchase issues with a quality rating lower than C, and should a holding be downgraded to a rating lower than C, the manager must notify the Consultant and Investment Staff within 48 hours.

Global Fixed Income Manager Guidelines

The guidelines listed below will apply to all Global Fixed Income ("GFI") portfolios, unless otherwise specifically noted:

- Excluding government sponsored enterprises; no single non-government debt security shall constitute more than 6% of the global bond portfolio, as determined at the time of purchase. Securities issued by AAA-Rated Supranational Organizations (such as the World Bank) will be considered to be government equivalents;
- No industry, as defined by the Barclays Capital Global Aggregate Index, except securities issued or guaranteed by the government, its agencies or instrumentalities, or government sponsored entities of the United States, Canada, United Kingdom, Germany, France, Australia, New Zealand and Japan, or securities issued or guaranteed by AAA-rated supranational entities will comprise more than 25% of the market value of the portfolio, as determined at the time of purchase;
- Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Portfolio's Custodian;
- Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;
- Common stock may be held if it is acquired as a result of financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the portfolio;
- The overall average quality of each GFI portfolio must be A- or higher, as rated by S&P, Moody's or Fitch. Non-rated issues or bank loans may be purchased, provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of A- or higher. Issues below Investment Grade at the time of purchase may be purchased up to a maximum of 20% of the portfolio. Emerging market debt may not comprise more than 40% of the portfolio. Combined, these last two allocations should not exceed 50% of the portfolio;
- Managers may continue to hold securities that are downgraded in quality subsequent to their purchase if, in the opinion of the manager, it would be advantageous to do so;
- The average effective duration (interest rate sensitivity) of a GFI portfolio must not differ from the passive benchmark by more than three years; and,
- Notwithstanding the above, each manager is allowed to hold a maximum of 5% of the portfolio in bank loans.

Emerging Market Debt Manager Guidelines

The guidelines listed below will apply to all Emerging Market Debt portfolios, unless otherwise specifically noted:

- No single debt security shall constitute more than 6% of the global bond portfolio, as determined at the time of purchase;
- Each manager may hold a maximum of 5% of the portfolio in bank loans;
- No industry, as defined by the J.P. Morgan Emerging Markets Bond Global Index ("JPM EMBI Global") Index, will comprise more than 25% of the market value of the portfolio, as determined at the time of purchase;
- Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Portfolio's Custodian;
- Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;

- Decisions as to the number of issues held and their geographic distribution will be the responsibility of the manager;
- Common stock may only be held if it is acquired as a result of financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the portfolio; and,
- From time to time, the Commission, upon the recommendation of the Consultant and CIO, may combine the allocations to U.S. High Yield and Emerging Market Debt in an overall portfolio that includes Global Bonds. Such a manager would be expected to manage in the spirit of the guidelines set forth above.

Alternative Asset Manager Guidelines

The guidelines listed below will apply to all Alternative portfolios, which include Global Asset Allocation, Absolute Return, Opportunistic Alpha, Private Equity, Opportunistic Credit, Real Assets and Real Estate:

- The Commission will only invest in alternative assets when there is sufficient transparency and policy compliance reporting. Thus, extensive due diligence will be taken in evaluating and fully understanding all aspects of an alternative investment opportunity;
- It is anticipated that the managers selected to provide the Portfolio's Absolute Return, Opportunistic Alpha, Private Equity, Opportunistic Credit, Real Estate and some Real Assets exposures will operate in the form of a partnership, commingled vehicle, or separately managed account. The policies of these managers will be dictated by the documents and/or contracts governing these relationships;
- The Commission's initial commitment to a fund will not exceed 25% of the committed capital of that fund, unless the Commission specifically suspends this restriction in order to take advantage of a new firm or product that has not yet built an asset base or in the case where the fund has been created specifically for RSIC.
- All partnership investments must have a mechanism with a timetable for exit. Other Alternative Investments should have reasonable and well-defined policies for withdrawal of funds from their strategies;
- Unless otherwise approved by the Commission, no more than 15% of the long-term targeted alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of a Fund-of-funds and a Strategic Partnership;
- Preference will be given to those funds where the general partner equivalent is contributing at least 1% of the capital of the total fund; and
- A reference check on a general partner or equivalent must be performed prior to investing in a fund. This reference check can be completed and reported by the Consultant, or other service provider, subject to review and approval by the Investment Staff.

Guidelines for Use of Pooled/Commingled Funds[3]

Commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with a separately managed account pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. The Commission will accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled vehicles. Therefore, commingled investment vehicles are exempt from the required guidelines if:

[3] For purposes of this section, reference to commingled "fund" or "vehicle" will include a limited partnership, limited liability corporation, or any commingled structure, as applicable.

- The investment practices of the commingled vehicle are consistent with the spirit of this policy and are not significantly different in letter, and
- The benefits of using a commingled vehicle rather than a separate account are material.

In some cases, the Commission may structure a portfolio as a separate account that allows for the advantages of commingled vehicles, but the Retirement System will be the only investor. With the introduction of international assets, in particular, commingled vehicles save the Commission from having to provide additional accounting for currency and foreign custody issues as the manager will have responsibility for these functions.

In instances where an investment mandate is structured through a commingled vehicle, the investment policies of that vehicle will be the legal governing policies of the investment of assets allocated to that vehicle.

Manager Reporting Guidelines

Managers must provide a quarterly summary of the following, which will be used to evaluate investment performance:

- Guideline compliance;
- Brief review of investment process;
- Discussion of any changes to the investment process;
- Investment strategy used over the past year and underlying rationale;
- Evaluation of strategy's successes/disappointments;
- An assessment of the current liquidity of the portfolio and the market(s) in which the portfolio is invested.
- Provide total partnership, asset class and individual fund returns as a monthly time series, for the last quarter, year-to-date, last year, three-years, five-years, and since inception versus designated benchmarks;
- Discuss performance relative to benchmarks including attribution; and
- Provide Portfolio characteristics relative to benchmark (In the case of a manager basing returns on an IRR and not a benchmark, there will not be any characteristic comparisons).

Additionally, the Commission may rely on reports generated by the Consultant or other third party services to evaluate investment managers on performance and compliance with guidelines.