SDCERS
San Diego City Employees' Retirement System

Investment Policy Statement

The mission of the San Diego City Employees' Retirement System (SDCERS) is to deliver accurate and timely benefits to its members, retirees and beneficiaries and ensure the Trust Fund's safety, integrity and growth.

Current as of July 24, 2008

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San Diego City Employees Retirement System
Investment Policy Statement

Introduction

This Investment Policy Statement (IPS) encompasses the investment goals, objectives and policies of the San Diego City Employees' Retirement System (SDCERS) Trust Fund. The purpose of the IPS is to assist the Board of Administration, the Investment Committee and Staff to effectively supervise and monitor SDCERS' Investment Program. This IPS addresses the following issues:

- The investment goals of SDCERS' investment program;
- The specific asset allocation and performance objectives by which SDCERS' assets shall be managed to achieve this goal;
- The general investment policies for the management of assets; and,
- The responsible parties and their duties for the management of assets.

The Board has adopted the specific policies and guidelines incorporated herein. The Board has been and will continue to be guided by the Prudent Expert standard.

The Board may delegate investment responsibility of Trust Fund assets to multiple investment managers and/or the Retirement Administrator subject to these guidelines the provisions of Article IX, Section 144 of the City of San Diego Charter. The Board may delegate to the Investment Committee responsibility for appointing and supervising investment managers and consultants. Investment consultants are used to assist in asset allocation studies, investment manager performance monitoring and selection reviews, as well as to conduct research. The Investment Committee is required to report to the Board at least quarterly.

The IPS is designed to provide sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

I. Investment Philosophy Summary

The Board believes considers that its investment policies, in aggregate, are to be the most important determinants of its investment success. Compliance with investment policies should, therefore, be monitored rigorously. The Board also believes that performance of the total portfolio, individual asset class and managers should be monitored and compared to appropriate, predetermined performance benchmarks.

The Board believes that prudent management of risk is a central element of the investment function and that diversification among asset classes will reduce risk and enhance returns of the overall investment portfolio in the long term.

The Board believes that market efficiency and opportunities vary among asset classes and may change over extended periods of time. Therefore, the Board believes that SDCERS' portfolio management strategies should adapt over time to reflect the changing nature of capital markets.

The Board's primary goals in managing the Trust Fund are:

1. To ensure that sufficient funds will be available to provide participants and their beneficiaries with all benefits due as specified in SDCERS' plan documents;
2. To give precedence to the financial interests of participants and beneficiaries over all other financial interests;
3. To comply with all applicable fiduciary standards; and,
4. To reduce the cost of funding benefits for both participating employers and the individual participants of SDCERS.

In order to achieve these goals, SDCERS must invest the necessary resources to build and maintain an appropriate organizational infrastructure.

II. Investment Goals and Objectives

In accordance with SDCERS' Mission Statement, the goal of SDCERS' investment program is to generate adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay the present and future obligations of SDCERS. The following objectives are intended to assist in achieving this goal:

- SDCERS should earn, on a long-term average basis, a total real rate of return in excess of SDCERS' actuarial assumed rate of real return (See Appendix B, "Actuarial Assumptions and Methods").

- SDCERS' assets will be managed on a total return basis, which takes into account the considerable importance of the preservation of capital. Additionally, SDCERS follows the principle that different degrees of investment risk exist and are generally rewarded with varying degrees of return over the long term.

- SDCERS will operate in an efficient manner that fulfills its fiduciary responsibility and contributes to the overall effectiveness of the organization.

It is the purpose of SDCERS' investment program to assure that sufficient financial assets are available to provide SDCERS' participants and their beneficiaries with all benefits due as specified in SDCERS' plan documents. Therefore, the participants' and beneficiaries' financial interests shall take precedence over all other financial interests.

To achieve these objectives, SDCERS allocates its assets (asset allocation) with a strategic, long-term perspective of the capital markets. Additionally, SDCERS also models and manages its investment program based on principals outlined under the Prudent Expert standard.

III. General Investment Policies

AUTHORITY TO INVEST AND DELEGATION THEREOF

The Board is authorized by Article IX, Section 144 of the San Diego City Charter to engage the services of one or more investment managers and independent investment consultants. Also, City of San Diego Council Resolution R-283578 (See Appendix C, “City Council Resolution”), adopted March 21, 1994, sets parameters with respect to the classes or types of investments permitted for investment of SDCERS’ funds.

The Board may delegate to the Retirement Administrator the investment of assets provided such investments are approved by an independent Investment Fiduciary. An independent Investment Fiduciary is defined as:

Once retained, an investment manager or consultant must acknowledge in writing their fiduciary responsibility to the Trust and agree that SDCERS’ investment objectives and policies will be followed. It is expected that investment managers and consultants will at all times conduct themselves as fiduciaries according to California law.

PERFORMANCE MEASUREMENT

Investment manager performance shall be measured and reported in accordance with Appendix D, “Performance Measurement and Reporting.” Performance shall be measured against Trust Fund objectives and against individual manager objectives.

- The Trust Fund’s performance shall be measured against the actuarial assumed rate of return, inflation, a universe of other public funds, a policy custom performance benchmark, or other appropriate measurements.
- Investment managers will be measured against stated objectives, an appropriate market index, a broad universe of managed portfolios, and against a smaller peer universe of portfolios managed by a similar investment style.

Performance shall be judged over at least a three- to five-year period (e.g. market cycle), except as indicated under the “Investment Manager Deficient Performance” section. This performance time horizon is intended to be consistent with the long-range investment goals of the Trust Fund. Additionally, this time horizon is adopted in order to improve the statistical reliability and validity of the performance evaluation process.

Performance objectives for active managers are based upon the expectation that the Trust Fund will achieve value added over and above the cost of active management.

CUSTODY OF TRUST ASSETS

SDCERS shall contract to utilize the services of a master custodian (custodian). The custodian shall transfer assets to and from the Trust Fund as directed by SDCERS’ staff. Also, the custodian shall settle purchases and sales of securities, collect income, and disperse funds for approved expenditures or investments. Other services provided by the custodian include, but are not limited to, cash management, portfolio transition services, securities lending services, compliance monitoring services and information/accounting services.

ASSET ALLOCATION AND RISK MANAGEMENT OF INVESTMENTS

Long-Term Strategic Asset Allocation Planning

The Board, or the Investment Committee on behalf of the Board, shall review and determine SDCERS’ long-range asset allocation investment policy. The asset allocation policy shall be structured for at least a three-year period. The asset allocation policy shall be developed with the assistance of the Investment Consultant and address the following considerations:

- Historical and anticipated capital market performance (returns and risks) of various asset classes;
- The expected correlation of returns among various asset classes;
- Inflation, interest rates, and other economic assumptions;

- The difference between the current and the projected asset values of the Plan; and,
- The projected actuarial cost of benefits due.

The asset allocation investment policy shall be reviewed annually. A more comprehensive asset/liability projection study shall be performed every three to five years. Through the annual review process, changes to the asset allocation policy and the any needed manager structure adjustments shall be decided. The long-term strategic planning process for asset allocation is detailed in Appendix E, “Long-Term Strategic Investment Planning For Asset Allocation”.

The Board shall annually review the overall asset allocation policy for the Trust Fund in order to provide a sound, fiduciary structure to the investment process. The asset allocation target exposures are established after thorough review and analysis of the Trust Fund's expected rates of return opportunities and the associated risk of attempting to achieve the targeted return. The asset allocation policy identifies the asset classes to be used and designates the percentage allocation to each asset class in the Trust Fund investment portfolio.

Additionally, at least every five years, the Board shall undertake an asset/liability study that evaluates the asset allocation policy in the context of projected actuarial liabilities and funding (contribution) practices. This is performed to assess the impact of changes in capital market behavior on the risk and return structure of the asset allocation strategy and the ultimate net cost of funding the benefits owed to participants and retirees.

The asset allocation policy targets that are adopted as a result of the strategic planning process are specified in Appendix G, “Asset Allocation Target Weightings and Rebalancing Ranges.”

Risk Management and Rebalancing

SDCERS seeks to maintain the Trust Fund tracking error to within +/- 2.5% of the total fund policy custom performance benchmark, as measured over a rolling 20-quarter time period (five years). Tracking error is a measure of how much a portfolio's performance deviates from the expected performance of a passive benchmark.

In order to control Trust Fund risk, the Board has adopted an asset allocation re-balancing policy that stipulates target allocations to asset categories or to investment managers within asset categories not to exceed certain tolerance or variance ranges specific to the expected volatility of each asset category and sub-category. This control process is detailed in Appendix F, "Risk Control and Rebalancing."

The target allocations will guide the decision as to which asset class(es) should receive contributions when available. Additionally, the allowable variance ranges shall guide decisions by Investment Staff as to which asset class(es) and/or investment manager(s) are directed to increase or decrease their portfolio investments. This shall be performed periodically, as necessary, to redistribute assets to achieve the target allocations.

The control parameters used to rebalance, adjust and maintain the target asset allocation policy in response to market fluctuations shall be reviewed at least every three years or more frequently in response to changes in the asset allocation policy. Rebalancing is an effective tool used to control risk within the total fund and potentially enhance returns. Risk is controlled by calling cash to reduce portfolio values to over-allocated asset categories and providing cash to increase portfolio values to under-allocated asset categories to maintain target asset allocation policy weights.

A specific asset class may become under-allocated as a result of poor relative investment performance by an investment manager over one or more market cycles. Additionally, poor relative performance may result from a change in the manager's key investment personnel or a change in the manager's investment style. Should these situations occur, the Retirement Administrator is authorized to redistribute assets to achieve the target allocations by selecting and utilizing appropriate, alternative, low transaction cost and interim investment vehicles, as approved by an independent

Investment Fiduciary. This authorization shall also be utilized in situations where existing investment managers are unable, for non-performance related reasons, to accommodate the addition of assets in a closed strategy whereby an investment manager has decided to decline additional funds for investment.

INVESTMENT MANAGER SELECTION PROCESS

The Investment Committee recommends to the Board the selection of outside investment managers to manage designated portions of the Trust Fund. The search and selection process used to identify and screen potential investment managers may utilize the services of the Investment Consultant to perform the initial, semi-final, and finalist firm selection phases of the process. Also, Investment Staff may perform the initial, semi-final, and finalist firm selection phases of a search through advertisement, issuance of Request for Proposals (RFP), or utilization of databases to screen firms for inclusion in a short-list for issuance of Requests for Information (RFI).

The Chief Investment Officer shall ensure that the office of the investment manager is visited and a due diligence review of the manager's operations is performed prior to making a recommendation for hire. The investment manager selection decision is performed by Staff and the Investment Consultant. The Investment Committee shall review the selection recommendation and if in concurrence, forward the recommendation to the Board for final approval.

The Board's delegation of investment authority to the Investment Committee or to Staff is specified in Appendix M – *Investment Authority Delegated by the Board of Administration*.

The Investment Committee shall administer the Trust Fund's investment program and oversee investment management and custodial fees, consulting fees, transaction costs and other administrative investment costs. No more than reasonable fees consistent with market rates for similar services shall be paid.

INVESTMENT MANAGER DEFICIENT PERFORMANCE

Criteria for evaluating the deficient performance of an investment manager include: underperformance relative to benchmarks and peer groups, investment style drift, significant organizational changes, compliance issues, and shortfalls in client service.

Occurrences of deficient performance by investment managers shall be grouped in two categories.

- The “Watch List” category is for short-term or moderate levels of underperformance and for minor organizational or compliance issues. Managers on the Watch List will be subject to closer scrutiny and monitoring. A copy of the Watch List Criteria is found in Appendix H, “Manager’s Watch List Criteria”
- The “Probation” category is for long-term or more extreme shortfalls in performance and for major organizational or compliance problems. An investment manager whose underperformance meets the criteria for placement in the “probation” category shall be subject to an Investment Committee formal review and reevaluation of their investment process no less than every six months. Probationary status that persists or worsens can result in the replacement of an investment manager.

INVESTMENT MANAGEMENT

The management of SDCERS’ investments shall be conducted, as directed by the Board, under the following policies:

- Pooled investment vehicles and funds for equity, fixed income and cash investments shall be subject to the limitations associated with their primary investment objective.

In no case shall an investment in a pool, fund or separate account exceed 20% of the pool or of the total assets under management by a manager in a particular style allocation, at the time of consideration for initial investment by SDCERS.

- All assets shall be transferred to investment managers except funds required for administrative expenses, benefit payments, and pending asset allocation commitments. All assets transferred to an investment manager should be fully invested in accordance to the investment manager's Specific Investment Guidelines. However, it may be necessary for investment managers to retain a portion of portfolio assets under management in cash or cash equivalents as they deem necessary to effectuate their particular investment strategy and to settle pending security trades. Security selections and maturities are at the investment managers' discretion.

Policies for each individual asset class are included separately in Appendix J, "Investment Guidelines and Performance Benchmarks." These policies detail both performance benchmarks and specific guidelines for each asset class. The following asset classes are those that SDCERS is eligible to invest in, either as an owner or as a lender:

Equities – Equities generally provide higher returns than other asset classes over the long-term. SDCERS currently invests in publicly-traded and privately-held equity throughout the world.

Fixed Income – Fixed Income generally provides steady, stable returns over the long-term. SDCERS currently invests in fixed income securities from around the world.

Real Estate – Real Estate can provide a stable cash income and long-term stable return and opportunistic capital appreciation. Real Estate is a hedge against inflation and prices tend to be highly correlated with inflation. SDCERS currently invests in privately-held stable, enhanced, and high-return strategies encompassing properties located throughout the world, and publicly-traded global real estate securities.

Securities Lending – To provide additional income to the Trust Fund, SDCERS engages in a Securities Lending Program using its custodial bank as lending agent. The Securities Lending program and policies are detailed in Appendix I, “Securities Lending”

The investment decisions within each actively-managed portfolio shall be the sole decisions of the investment manager, in accordance with the Investment Management Agreement between the manager and SDCERS. The contractual Specific Investment Guidelines for SDCERS’ investment managers of publicly-traded securities portfolios are included in Appendix M. The investment actions and reporting of the investment manager’s actions shall be performed within the bounds of the Board's overall asset allocation guidelines and investment policies for the Trust Fund. These policies are detailed in Appendices.

Additional investment management policies resulting from investment in the above asset categories include:

Securities Litigation Claims Recovery - When necessary, SDCERS’ master custodian files securities litigation claims to recover damages from companies. SDCERS’ Legal Division has established a policy detailing SDCERS’ involvement in potential lead plaintiff situations. This policy is included in Attachment K, “Securities Litigation.”

Corporate Governance – SDCERS believes that good corporate governance is essential for the long-term financial performance of any company. Given this, SDCERS has developed its Proxy Voting Policy and Guidelines in order to facilitate voting on proxy issues. Each vote decision is made on the basis of providing greater shareholder wealth. This policy is included in Appendix L, “Proxy Voting.”

ASSET TRANSITION MANAGEMENT

On occasion, SDCERS may have a need to restructure its portfolios as a result of asset allocation policy changes or as a result of replacing an investment manager. In order to monitor and control asset allocation exposure and to minimize transaction costs associated with redeployment of large amounts of capital, the services of the master custodian's trading operations, the services of any capable investment manager currently under contract, or the services of any other responsible transition management service provider may be utilized. A trading cost analysis shall be obtained on an asset transition restructuring in order to evaluate the results of the transition management and to satisfy SDCERS' fiduciary responsibility to monitor best execution.

IV. Duties of Responsible Parties

DUTIES OF SDCERS' BOARD THROUGH SDCERS' INVESTMENT COMMITTEE

Trustee's Standard of Care in Administering Trust

The assets of the Trust Fund are to be managed and invested according to the provisions of the California State Constitution, Article 16, Sections 17(c) and 17(d). These state:

(c) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(d) The members of the retirement board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

The Board or its designee(s) will adhere to the following in fulfilling its fiduciary duty in managing the investment of SDCERS' Trust Fund:

- Annually review and establish the long range asset allocation strategy and manager structure of SDCERS in accordance with Appendix E.
- At least every three to five years, conduct an asset/liability study that will be used to establish asset allocation goals and objectives for a three year period.
- Review the investment performance of SDCERS total fund and underlying portfolios, with the assistance of the general Investment Consultant and in accordance with Appendix E, on a quarterly basis. Performance will be evaluated by comparing investment returns to appropriate benchmarks and peer group rankings.

- Review quarterly real estate performance reports from SDCERS' real estate consultant.

- Review both monthly and quarterly statements from SDCERS' investment and real estate managers.

- Retain a general Investment Consultant to assist with performance measurement, asset allocation, manager reviews, investment research, manager searches and other projects as needed. Comments and recommendations from the Investment Consultant will be taken into account when making investment-related decisions.

- Retain a qualified custodian to safeguard SDCERS' assets.

- Monitor SDCERS' investment managers to ensure they adhere to policies and guidelines set forth in this document. The Board has the authority to initiate or terminate contractual relationships with SDCERS' investment managers.

- Monitor staff to ensure the administration of SDCERS' investments in a responsible, cost-effective, risk minimizing manner.

- Avoid any conflicts of interest.

DUTIES OF THE INVESTMENT STAFF

The Investment Staff, as designated by the Retirement Administrator and Board, plays a significant role in the management and oversight of the Trust Fund. The Investment Staff is responsible for the following tasks:

- Maintain the target asset allocations of the fund in accordance with Board policy. This requires an annual review of the asset allocation policy and an asset allocation and liability study to be done every three to five years.

- Rebalance investment portfolios, as necessary, in order to maintain the asset allocation or to make cash available for the payment of benefits.

- Initiate and monitor all wire transfers or movement of monies to or from all investment accounts and to external sources for real estate investments.
- Monitor external investment, real estate and private equity managers for adherence to appropriate policies, guidelines and Investment Management Agreement specifications. Report to the Board any significant violations discovered.
- Maintain relationship with master custodian to ensure compliance with contract and all commitments.
- Maintain relationships with consultants (general investment, real estate and other asset class specialists) in order to obtain necessary assistance with assignments from Staff, Investment Committee and Board in accordance with the contract requirements.
- Conduct manager searches or monitor the Investment Consultant in investment manager searches as assigned by the Board.
- Monitor the Managers Watchlist, report on any changes, and recommend action to the Investment Committee and Board, if necessary.
- Evaluate any changes in ownership structure of an investment management firm and with the concurrence of the Investment Consultant, authorize the assignment of the firm's Investment Management Agreement with SDCERS to the new ownership entity.
- Manage portfolio restructurings resulting from investment manager terminations with the assistance of consultants, investment and transition managers, and SDCERS' master custodian, as needed.
- Conduct special research required to manage the Trust Fund more effectively, as directed by the Investment Committee and Board.
- Assist the Investment Committee in the development, implementation, and

revision of the Investment Policy Statement, as approved by the Board.

- Report on investment activity and matters of significance at each Investment Committee and/or Board meeting.
- Monitor the Securities Lending Program in accordance with the Securities Lending Policy.
- Conduct research and vote proxies in accordance with SDCERS' Proxy Voting Policy and Guidelines.
- Administratively suspend the investment activity of managers (see Appendix M).
- Avoid any conflicts of interest.

DUTIES OF THE INVESTMENT MANAGERS

The investment managers shall have discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; applicable Local, State and Federal statutes and regulations; and, the individual specific investment guidelines in their contracts. The Investment Managers shall be responsible for the following:

- Execution of a contractual agreement to invest within the guidelines established in the Investment Policy Statement.
- Provide SDCERS with annual proof of liability and fiduciary insurance coverage.
- Be a SEC-Registered Investment Advisor under the 1940 Act, an insurance company or a bank and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
- Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy,

performing research, developing buy, hold and sell lists, and purchasing and selling securities.

- Execute all transactions for the benefit of SDCERS with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to SDCERS, and where appropriate, facilitate the recapture of commissions on behalf of SDCERS.

- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian (excludes real estate and alternative assets).

- Maintain frequent and open communication with staff on all significant matters pertaining to the management of SDCERS assets, including, but not limited to, the following:

    1. Major changes in the Investment Manager's outlook, investment strategy and portfolio structure;

    2. Significant changes in ownership, organizational structure, financial condition or senior personnel;

    3. Any changes in the Portfolio Manger or other key personnel assigned to the SDCERS account;

    4. Each significant client which terminates its relationship with the Investment Manager, within 30 days of such termination;

    5. All pertinent issues which the Investment Manager deems to be of significant interest or material importance; and

    6. Meet with the Board or its designee(s) on an as-needed basis.

DUTIES OF THE CUSTODIAN

The Custodian shall be responsible for the following:

- Provide complete global custody and depository services for the designated account.
- Manage the cash and enhanced cash funds not invested by managers, and ensure that all available cash is invested. If SDCERS elects to manage cash externally, full cooperation must be provided to the external manager.
- Provide the Investment Consultant with portfolio information for performance measurement in a timely manner.
- Provide, in a timely and effective manner, a monthly report of the investment activities implemented by the investment managers.
- Calculate all income and principal realized and properly report the results in periodic statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
- Report to SDCERS situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Provide assistance to SDCERS to complete such activities as the annual audit, transaction verification or unique issues as required by the Board.
- Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

- Deliver all domestic and international proxy voting materials to SDCERS or its designated proxy voting agent, including meeting notices, voting instruction forms, proxy statements, quarterly and annual shareholder reports and miscellaneous proxy voting materials.

DUTIES OF THE CONSULTANTS

The Board and staff will consider the comments and recommendations of consultants in conjunction with other available information to make informed, prudent decisions.

General Investment Consultant

The General Investment Consultant shall be responsible for the following:

- Assist staff in making recommendations to the Board regarding: investment policy, strategic asset allocation, asset liability modeling, asset class and manager structure strategies.
- Prepare a quarterly performance report including performance attributions on SDCERS' managers and total assets.
- Assist SDCERS in the selection of qualified investment managers, and assist in the oversight of existing managers, including monitoring changes in personnel, ownership and the investment process.
- Assist in the selection of a qualified custodian (including a securities lending agent and/or a cash manager) if necessary.
- Provide topical research and education on investment subjects that are relevant to SDCERS.

Real Estate Consultant

The Real Estate Consultant shall be responsible for the following:

- Assist staff in making recommendations to the Board regarding investment policy, strategic asset allocation and asset class strategy.

- Assist SDCERS in the selection of qualified real estate investment managers.

- Prepare a quarterly performance report including performance attributions on SDCERS' managers and total assets.

- Provide topical research and education on investment subjects that are relevant to SDCERS.

<u>Private Equity or Alternative Investments Consultant</u>

The Private Equity Consultant shall be responsible for the following:

- Assist staff in making recommendations to the Board regarding investment policy, strategic asset allocation and asset class strategy.

- Assist SDCERS in the selection of qualified private equity investment managers or fund-of-fund managers.

- Prepare a quarterly performance report including performance attributions on SDCERS' managers and total assets.

- Provide topical research and education on investment subjects that are relevant to SDCERS.

<u>Proxy Voting Consultant</u>

The Proxy Voting Consultant or Proxy Voting Agent shall be responsible for the following:

- Vote proxies in a timely manner per SDCERS' Proxy Voting Policy and Guidelines or per staff direction in the case of exceptions to the policy .

- Provide staff with on-going proxy voting research and analyses consistent with SDCERS' investment goals and in accordance with SDCERS' Proxy Voting Policy and Guidelines.

- Provide staff with company-specific corporate governance profiles, pertinent statistical reporting and yearly review of the results of corporate annual meetings.

Appendix A

INVESTMENT PHILOSOPHY

This section describes the Investment Philosophy (Philosophy) of the San Diego City Employees' Retirement System (SDCERS). Its purpose is to articulate the basic principles and beliefs that underlie SDCERS' investment policy and the overall management of the pension funds of the employees and retirees of the participating employers' retirement plans (Plans). The Philosophy is designed to complement rather than replace the investment policies of SDCERS. It is expected that SDCERS' approach to investments, as reflected in its policies and strategies, will be consistent with the Philosophy over time. Though the Philosophy allows significant flexibility, it also raises some constraints or implications. Where these are deemed to be significant, they have been explicitly identified and labeled as *Implications*.

A SDCERS' Board should review the Investment Policy and the Philosophy at least every 3 to 5 years as experiences, circumstances and financial instruments and opportunities will change over time. This Philosophy statement and any changes will provide staff, advisors and Trustees with a frame of reference to understand how the investment program has evolved as well as the rationale behind its design. The Board may modify the Philosophy as experiences and circumstances suggest is prudent.

The Philosophy includes eight sections:

1. Mission
2. Risk Management
3. Diversification
4. Market Efficiency
5. Value-Added Managers
6. Organizational Infrastructure and Communications
7. Performance Monitoring and Time Horizon
8. Prohibited Investments

1. <u>Mission</u>

a) The Board's primary goals in managing the investments are:

   i) To ensure that sufficient funds will be available to provide participants and their beneficiaries with all benefits due as specified in SDCERS' Plan documents;

   ii) To give precedence to the financial interests of participants and beneficiaries over all other financial interests;

   iii) To comply with all applicable fiduciary standards; and

   iv) To create value added, where feasible, that will help reduce the costs of funding the participating Plans.

2. <u>Risk Management</u>

a) The Board believes that prudent management of risk is a central element of the investment function.

b) Though there are numerous risks involved in the management of a pension investment program, SDCERS believes that the following warrant particular attention:

   i) ***Funding-related Risk*** - The risk that the funds available in the participating Plans will be insufficient to pay both the promised defined benefits and any contingent or supplemental benefits; or, that contribution volatility will be unacceptably high. The primary methods for managing funding risk include periodically conducting integrated asset / liability studies, and establishing appropriate and prudent investment and funding policies.

      0.1 In managing the relationship between assets and liabilities, the asset allocation strategy of the Fund should provide a minimum 90% level of probability of meeting the projected liabilities of the Plans over a 20-year time period, as determined by the actuary.

0.2 A Plan shall be considered fully funded so long as it maintains an average funded ratio of at least 120% during the rolling time period used for actuarially smoothing of investment returns (See Attachment A, Actuarial Assumptions and Methodologies).

0.3 A Plan shall be considered to be inadequately funded if it maintains an average funded ratio of less than 80% during the rolling time period used for actuarially smoothing of investment returns.

ii) ***Benchmark-related Risk*** – The risk that the investment benchmarks adopted by the Fund are inappropriate, or that the aggregate of the individual manager benchmarks within an asset class do not adequately reflect the benchmark for the asset class as a whole. The latter risk is a specific risk generally referred to as *benchmark misfit risk (i.e. style risk)*. Inappropriate benchmarks or excessive benchmark misfit risk could result in investment performance different than expected and could adversely impact decisions concerning the hiring or firing of investment managers.

0.1 The primary methods for effectively managing benchmark-related risk are:

(a) regular review of the Fund's benchmarks; and

(b) regular measurement and monitoring of misfit risk using proper methodologies.

iii) ***Manager Risk*** - The risk of aberrant performance on the part of individual investment managers, and the related active management risk for asset classes as a whole.

0.1 The primary methods for mitigating manager risk are:

(a) Maintaining prudent processes for selecting and monitoring investment managers;

(b) Controlling the proportion of Fund assets assigned to individual investment managers;

(c) Employing competent internal investment staff to administer investment exposures;

(d) Employing effective investment consulting support; and

(e) Communicating clearly to investment managers the objectives, expectations, and investment time horizons of SDCERS.

0.2 The primary method for mitigating active management risk for asset classes include:

(a) Establishment of appropriate asset class benchmarks and the expected levels of deviation from the benchmarks;

(b) Careful monitoring of asset class performance relative to the benchmarks; and

(c) Appropriate use of passive investment management in more efficient markets, when the funded levels of the participating Plans are sufficient to permit foregoing value-added management.

iv) ***Fortitude Risk*** - The risk that the Board or staff will fail to exercise the patience, judgment, or fortitude required to support long-term policies and strategies for the investment and funding program.

0.1 The keys to managing fortitude risk are believed to include:

(a) Effective orientation and education with respect to institutional investing and actuarial science; and

(b) A commitment to continual refining, confirming, and communicating the investment philosophy and funding policy of the Retirement System.

3. Diversification

a) SDCERS accepts the basic tenets of modern portfolio theory, which suggest that diversification, or combining assets that are not perfectly correlated with each other, will reduce the long-term volatility of the overall portfolio.

b) It is generally desirable, however, to avoid overly complex asset structures, provided the allocations selected can reasonably be expected to meet the objectives of the Plan. The benefits of diversification must be weighed against a number of factors including costs, liquidity, complexity, communication, internal staff resources and expertise and trustee knowledge and effort.

c) The following asset classes are appropriate candidates for consideration of inclusion in the portfolio:

   i) Domestic equity;

   ii) International equity, including emerging markets;

   iii) Domestic fixed income, including high yield fixed income;

   iv) International fixed income, including high yield and emerging markets:

   v) Real estate; and

   vi) Alternative investments (private equity, currencies, timber, etc.).

Implications

- A systematic methodology for re-balancing the investment portfolio is required to ensure proper implementation, ongoing maintenance and adequate risk control of the asset allocation structure.

- Adding or deleting asset classes or investment managers should be considered in light of the impact such diversification decisions are likely to have on the general complexity and cost structure of the portfolio, as well as SDCERS' ability to prudently achieve its investment and funding goals over the long run.

4. **Market Efficiency**

SDCERS accepts that modern portfolio theory suggests that various asset classes or markets display different degrees of efficiency that may impact the ability of active managers to add value above appropriate market benchmarks, net of fees:

a) SDCERS believes that market efficiency varies among asset classes, creating greater and lesser opportunities for successful active management strategies based on securities selection.

b) SDCERS believes it is appropriate to employ value-added active management strategies in more efficient asset classes in order to achieve and/or maintain an adequate level of funding.

c) For less efficient asset classes, SDCERS believes that it has the ability and a duty to prudently exploit such inefficiencies through active securities selection strategies.

d) SDCERS believes it is appropriate to strategically overweight exposures to less efficient asset classes in order to capture the additional value-added opportunities they provide and thereby reduce the long-term funding cost to the participating Plans and their employees. As such, SDCERS maintains a capitalization bias to smaller companies in its equity exposures and uses other sources of diversification to control total fund volatility.

e) SDCERS does not believe in the viability of active management strategies that rely on market timing. As such, investment managers are expected to be fully invested in their respective asset classes; and, in accordance with their specific investment guidelines, maintain cash levels generally less than 5% of assets.

f) SDCERS does not believe in the viability of management strategies that call for over or under weighting investment styles (growth/value) or sectors (energy, finance, etc.) within an asset class; i.e., benchmark misfit risk will not generate long-term alpha. Accordingly, SDCERS generally believes that it should maintain overall asset class exposures on an aggregate investment style neutral or economic sector neutral basis that is consistent with broad or weighted benchmarks for an asset class as a whole.

g) When SDCERS has obtained full funding of its Plans, asset classes that can be demonstrated to be more efficient should be considered for passive management in order to reduce active management risk and lower the costs of managing the portfolio.

Implications

- SDCERS should be conscious of any subtle forms of market timing that may arise in the course of managing the Fund, or that may be implicit in investment strategies presented to SDCERS for inclusion in the investment program.

- SDCERS should determine appropriate methods for determining whether an asset class is efficient or presents appropriate opportunities, thus providing insight to the Board on the use of particular strategies.

5. Value-Added Managers

a) SDCERS believes that the portfolio characteristics utilized to control risk in the broad portfolio, such as market capitalization, sector exposure, use of derivatives, leverage limitations, property type or deal structure may be modified for specific managers who control a limited portion of the portfolio and have demonstrated a proven capacity to consistently add value net of fees. Such strategies, which SDCERS refers to as Value-Added, may include the following elements:

   i) The use of active managers who employ more aggressive or esoteric investment strategies, such as concentrated portfolios, leveraged real estate purchases, value-added real estate investments, high-yield debt, absolute return market neutral strategies using collateralized short selling, etc.

   ii) The use of managers who employ tactical strategies to shift exposures between asset classes on either a domestic or global basis may also be retained to manage a portion of assets.

b) The primary benefits of including a Value-Added approach within the overall portfolio are:

i) Prudent use of wealth generating opportunities to lower long-term funding costs;

ii) Improved risk adjusted performance of the Fund; and

iii) Concentration on opportunities where the likelihood of adding value is greatest.

c) The market efficiency and opportunities in asset classes may change over extended periods of time; therefore SDCERS believes that its portfolio management strategies should adapt over time to reflect the changing nature of capital markets.

6. <u>Organizational Infrastructure and Communications</u>

a) SDCERS believes that in order for the investment program to achieve its goals, SDCERS must invest the necessary resources to build and maintain an appropriate organizational infrastructure, key elements of which include:

i) A competent, internal investment staff comprised of a sufficient number of investment professionals possessing appropriate leadership, technical, and administrative skills.

0.1 SDCERS recognizes that it competes with the private sector in attempting to attract and retain competent staff. It must therefore continually strive to create a total work environment that is challenging, rewarding, and competitive.

ii) A strong relationship with outside general investment consultant(s) who are able to provide SDCERS with the following:

0.1 A high degree of investment expertise;

0.2 Innovative and proactive advice and counsel;

0.3 Strong research support; and

0.4 Strong reporting capabilities.

iii) A broad-based information gathering and reporting system to present well-researched, relevant and timely data in a manner that is easily understood, and that supports rigorous and consistent monitoring of critical investment activities.

iv) An open channel of communication between the Board, management, and the external investment professionals.

b) By providing the Board with timely, accurate, and thorough information, the organizational infrastructure will give the Board the high level of comfort it needs to set policy, make investment decisions, oversee the performance of the investment program, and maintain the fortitude necessary to support its investment philosophy, policies, and strategies.

Implications

- SDCERS must determine what constitutes an appropriate internal investment staff structure, given the current nature of the investment program and its anticipated evolution.
- SDCERS must, over time, take concrete steps towards creating and maintaining a work environment that will allow the Retirement System to attract and retain needed staff.
- SDCERS must recognize that developing the organizational infrastructure it needs (staffing, consulting support, information systems, and communication channels) cannot be achieved overnight, but rather will require an ongoing commitment of time and resources.

7. Performance Monitoring and Time Horizon

a) SDCERS holds the following basic beliefs concerning performance monitoring practices and methodologies:

i) The various investment policies of the Fund, in the aggregate, are the most important determinants of investment success so compliance with investment policies should be monitored rigorously;

ii) The performance of the total portfolio, individual asset classes, and investment managers should be compared to appropriate, predetermined benchmarks;

iii) Peer comparisons are an additional valid tool in assessing individual manager performance (supplementing the use of benchmarks), given that SDCERS aims to select superior managers within particular investment styles or mandates. Peer comparisons, or performance rankings, are also valid tools for measuring the performance of asset class portfolios; and

iv) Peer group comparisons are not an appropriate means of assessing the performance of the total Fund, given that other public fund sponsors have different objectives, risk tolerance levels and funded ratios and therefore may have different asset allocation policies.

v) Benchmark misfit risk, or the risk that the aggregate of individual investment manager benchmarks in an asset class do not adequately reflect the benchmark for the asset class as a whole, should be explicitly measured on a regular basis.

vi) Investment managers are generally hired to fulfill a specific role in a portfolio. Accordingly, SDCERS believes it is important that SDCERS monitor the extent to which managers comply with their stated styles and mandates.

b) SDCERS believes that successful funding and investment decisions require a long-term perspective on the part of the Board and management:

   i) It is the intention of the Retirement Board that commitments to asset classes and investment strategies should involve long time horizons that may include more than one business cycle (three to five years each). Relatively illiquid asset classes will require even longer time horizons.

   ii) The Board acknowledges that commitments to individual investment managers also require a long time horizon of at least one business cycle (three to five years).

   iii) SDCERS believes that proper reporting and monitoring systems; and clear communication among consultants, management, investment managers and the Board will enable the Board to maintain the necessary long-term perspective on all investment decisions.

Implications

- Assessing the investment performance relative to appropriate, pre-determined, benchmarks is as applicable to the total portfolio and to individual asset classes as it is for individual investment managers, and therefore warrants a commensurate share of the Board's time and attention.
- The Board will spend relatively little time assessing the performance of the Fund relative to that of other public pension funds.
- SDCERS will need to either develop in-house capabilities to regularly measure benchmark-related risk, or it will need to use such capabilities from external investment consultants.
- SDCERS will monitor all investment managers to ensure they are complying with their stated investment style, regardless of whether they are performing well or poorly. Strongly performing managers who are found to not be following their stated styles will be carefully scrutinized and may be subject to disciplinary action.

- SDCERS will monitor all investment providers to ensure compliance with the Investment Policy Statement.

8. **Prohibited Investments**

Asset managers shall exercise prudent expert standards in defining prohibited investments.

Appendix B

ACTUARIAL ASSUMPTIONS AND METHODS

1. **Investment Return Assumption**

   System assets are assumed to earn an annualized total return of 8%, net of expenses.

2. **Inflation Rate Assumption**

   An inflation assumption of 4.25% compounded annually is used for projecting the total annual payroll growth for amortization of any unfunded actuarial liability (UAL). It also represents the difference between the investment return rate and the assumed real rate of return.

3. **Real Rate of Return Assumption**

   A real rate of return assumption of 3.75% compounded annually represents the difference between the assumed rate of total return, less the assumed rate of inflation.

4. **Funding Method**

   The Projected Unit Credit Method is used to determine contribution costs, calculated as a rate applied to payroll. As of the June 30, 2007, actuarial valuation (for the FY2009 GASB ARC calculation) this will change to the Entry Age Normal Method. The total contribution rates consist of two parts: a normal cost rate and an employer UAL rate.

   The UAL rate funds a UAL with annual payments as a level percentage of payroll amortized over a time period adopted by the Board upon advice from the Actuary. The amortization period for each participating employer can be found in the most current actuarial valuation report for that employer's pension plan.

5. Asset Valuation Smoothing Method

For purposes of determining annual contributions to the System, an actuarial value of assets is calculated using a smoothing process. This asset adjustment method dampens the volatility in asset values that occurs because of ongoing fluctuations in market conditions. The Board has adopted the Expected Asset Method of smoothing. This method adjusts the expected value of assets (prior year actuarial value of assets plus the assumed rate of total return) by ¼ of the difference between the market value of assets and the expected value of assets. At the potential extremes of this smoothing process, the actuarial value of assets will be capped at a maximum of 120% or a minimum of 80% of the market value of assets.

Appendix C

(R-94-1254)

RESOLUTION NUMBER R-283578

ADOPTED ON MARCH 21, 1994

WHEREAS, the San Diego City Employees' Retirement System Fund (Trust Fund) exists for the purpose of providing retirement income, disability income, and death benefits for the employees and family members of The City of San Diego and the Unified Port District; and

WHEREAS, the Board of Administration (Board) for the City Employees' Retirement System (Retirement System) has exclusive control over the administration and investment of the Trust Fund pursuant to section 144 of The Charter of the City of San Diego (Charter) and pursuant to California Constitution article XVI, section 17; and

WHEREAS, Charter section 144 permits the Board to invest in any bonds or securities which are authorized by general law for savings banks; and

WHEREAS, the Board is further permitted to invest in such additional classes or types of investments as are approved by resolution of the Council of the City of San Diego (Council); and WHEREAS, the Council has previously approved, by Resolution No. 259541, adopted on October 31, 1983, an investment policy; and

WHEREAS, the Board has developed an investment program based on this policy, the purpose of which is to ensure that sufficient financial assets are available to provide the benefits as specified in the Charter and the San Diego Municipal Code; and

WHEREAS, the Board is currently limited to investing in common and preferred stocks of corporations domiciled in the United States of America and the Dominion of Canada; and

WHEREAS, the Board is also limited to investing in fixed income security investments issued by the governments and corporations of the United States of America and the Dominion of Canada; and

WHEREAS, with the exception of Canadian investments, all other international investments are prohibited; and

WHEREAS, the Board is also restricted by percentage limitations, currently five percent (5%) in its investments in pooled vehicles; and

WHEREAS, the Board has been concerned with the Retirement System's investment returns in that they may become adversely affected by the current investment restrictions in the international arena and percentage limitations in pooled investment vehicles; and

WHEREAS, in the summer of 1993, the Board, with the assistance of its investment consulting firm, Callan Associates, reviewed the risk and return impacts which could result from updating the investment policy to remove the current restrictions on international investments, increase the percentage limitations in pooled investment vehicles and broaden the investment opportunities available to independent investment counsel; and

WHEREAS, the Board's independent investment consultant recommended a revision to the Council's investment policy to allow international investments and to increase the percentage limitation in pooled investment vehicles from five percent (5%) to twenty percent (20%) of the market value of the pools at the time of entry; and

WHEREAS, the Board approved the recommendation of its independent investment consultant on January 21, 1994; and

WHEREAS, the Board's current independent investment counsel, having knowledge of the global frontier of investment opportunity, also recommended a revision to the Council's investment policy to allow international investments; and

WHEREAS, revisions have been proposed to the investment policy set forth in Resolution No. 259541, adopted October 31, 1983, to permit international investments and to increase the percentage limitation for pooled investment vehicles from five percent (5%) to twenty percent (20%) of the market value of the pools at the time of entry; and

WHEREAS, the proposed revisions to the Council's investment policy have been reviewed by the Board's investment consultant and the Board's real estate consultant; and

WHEREAS, the proposed revisions to the Council's investment policy were submitted to and approved by the Investment Committee and the Board on February 17, 1994 and February 18, 1994, respectively; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, as follows:

That this Council hereby approves and adopts the following recommendation of the Board, supported by and based upon the recommendations and review of the Board's independent investment counsel and independent investment consultants, as the policy of this Council with respect to classes or types of investments permitted for investment of funds of the City's retirement system. All investments shall be restricted to those investments that are believed by independent investment counsel to be appropriate for investment by trust funds operating under the prudent man rule as formerly set forth in the California Civil Code section 2261 (repealed) and now detailed in the California Probate Code, section 16040 (b). (References to limitations based upon market values shall be interpreted to mean market value as of the month-end immediately prior to the time such a determination is required.) Percentages set forth herein as limitations on investments shall apply equally and separately to the existing assets of the City Employees' Retirement System and those funds to be collected and accrued under any subsequent ordinances establishing alternative or additional trust funds to be administered by the Board:

A. FIXED INCOME SECURITIES EXCLUDING REAL ESTATE LOANS

Investment in the bonds, notes or other obligations which are issued by:

i. The United States of America or any of its agencies or instrumentalities;

ii. Any sovereign nation or any of its provinces, cities or municipal corporations;

iii. Any state, and any county, town, school district or other municipal corporation of any state of the United States of America; and

iv. Any quasi-governmental agency or any solvent corporation created or existing under the laws of a sovereign nation which is not in default as to either principal or interest at the time of the purchase; and

v. Purchases of non-United States fixed income securities shall not exceed forty (40%) of the total assets of the fund invested in fixed income securities.

B. REAL ESTATE INVESTMENT

Investments in real estate may include every kind of real property or debt instrument with a security interest in real property including, but not limited to, the outright acquisition of land and/or improvements to the land, the origination or purchase of loans and equity including, but not limited to, loans with income and profit participation, combination loan and partnership financing, and straight partnership or joint venture interests where no loan is involved. The total amount of real estate investments shall not exceed forty percent (40%) of the total investments of the fund at cost at the time of commitment, except where it is necessary to exceed that percentage for limited periods of time to enable the Board to carry out a specific investment program, and such investments are approved by the Council by direct authorization or contractual relation. Purchases of first trust deeds that are insured by the Federal Housing Administration or that are guaranteed by the Veterans Administration should not be originated or serviced by the Retirement System.

C. COMMON STOCK

Investment in common stocks selected and recommended by investment counsel, subject to the following policies and limitations:

i. The total investment in equity-type securities is not to exceed seventy percent (70%) of total assets of the fund not invested in real estate oriented investments (specified in subsection B above) at market.

ii. Purchases of non-United States common stocks shall not exceed forty (40%) of the total assets of the fund invested in common stock investments.

iii. It is expected that common stock selection will place emphasis upon the likelihood of continuing satisfactory earnings.

iv. The amount invested in the common stock of any one company should not exceed at market six percent (6%) of total investment assets of the funds, and should not exceed three percent (3%) of the outstanding common stock of that company.

D. PREFERRED STOCKS

Investments in preferred stocks selected and recommended by investment counsel, subject to the following policies and limitations:

i. Total investment in preferred stocks is not to exceed ten percent (10%) of the equity portfolio at market;

ii. Purchases of non-United States preferred stocks shall not exceed forty (40%) of the total assets of the fund invested in preferred stock investments; and

iii. The amount invested in the preferred stock of any one company is not to exceed at market two percent (2%) of the equity portfolio and should not exceed five percent (5%) of the outstanding preferred stock of that company in that particular issue.

E. POOLED VEHICLE

Investments in pooled vehicles, which may be investment companies registered under the "Investment Company Act of 1940," such funds or other pooled funds offered by or through the custodian, or real estate pools of various types or other pooled vehicles which offer diversified investment management are authorized provided that the use of such pool must be approved by the Board of Administration upon recommendation by investment counsel and that the investment in such pool does not exceed twenty percent (20%) of the market value of said pool at time of entry. In addition, investments in such pools are subject to overall limits on equity and real estate investment stated in subsections B and C of this resolution. Pooled vehicles will be classified for the purpose of satisfying overall guidelines by the major sources of their expected investment return and not by the technical character of the investment vehicle itself. In case of uncertainty on this point, the Board of Administration is empowered to make such a determination.

F. MISCELLANEOUS INVESTMENTS

i. Investments which do not precisely fit within previously authorized categories are not specifically precluded for investment by the City's retirement system. Such forms of investment include, but are not specifically limited to, securities lending programs, covered call option writing programs, and use of financial futures. Forward currency contracts shall be permitted for use of hedging foreign currency exposure.

Such investments must be approved by the Board of Administration upon recommendation by investment counsel and are to be judged upon the basis of their overall suitability for inclusion in the investment program.

ii. That the Board of Administration is empowered to effect such purchases, sales, and exchanges as are desirable to accomplish the investment objectives of the Retirement System and to authorize investment counsel to effect such purchases, sales, and exchanges.

iii. That the investment counsel is authorized to direct the custodian to invest all cash balances on a daily basis in certificates of deposit, bankers acceptances, commercial papers, master notes, savings deposits, United States Treasury or Federal agency obligations, or other investment vehicles, including pooled vehicles, appropriate for short-term.

iv. That the investment counsel is authorized to direct the custodian to settle any and all transactions initiated by said investment counsel pursuant to its authority from the Board of Administration.

v. That Resolution No. 259541, adopted October 31, 1983, be and the same is hereby rescinded.

APPROVED: JOHN W. WITT, City Attorney

By

Loraine L. Etherington

Deputy City Attorney

LLE:mrh

03/04/94

Appendix D

PERFORMANCE MEASUREMENT AND REPORTING

Reporting of Trust Fund Investment Status

The Board believes timely reporting and communications concerning the status of investments and their performance is essential. This section defines the investment reporting requirements of SDCERS. In general, equity and fixed income managers shall provide monthly reports to the Investment Committee or the Board. Real estate managers or managers of other non-public market traded investments shall provide reports at least quarterly. These reports are to include:

- Composition of assets
- Notice of the portfolio's largest industry or sector representations and holdings
- Portfolio performance compared to the appropriate major index benchmark
- Such other matters as investment managers feel are necessary

Reports from the Investment Consultant shall be provided quarterly to the Investment Committee or the Board. These reports are to include:

- Performance of the total Fund
- Performance of the individual managers
- Equity performance
- Fixed income performance
- Real estate performance
- Time-weighted rates of return and rankings
- Such other matters as the Investment Consultant feels are necessary

Additionally, SDCERS staff shall provide a monthly reconciliation of all invested assets at cost for the purpose of satisfying Municipal Code requirements. This reconciliation shall include a calculation of the realized gains and a list of asset values for use in preparing the monthly financial statements provided to the Board.

Investment Staff shall also report to the Board or its Investment Committee: on a monthly basis regarding the status of investments, including the asset allocation structure of the Fund and a list of managers on the Manager's Watch List; and, on a quarterly basis the status of securities lending activity.

Performance Reporting and Monitoring

The Board of Administration has delegated to the Retirement Administrator the responsibility and discretion to implement the policies established by the Board for the investment of SDCERS' assets.

It is the responsibility of the Board to formulate policy but not the intent of the Board to become involved in either the active implementation of that policy or in the daily operations of SDCERS. It is the duty of the Trustees to review and monitor the implementation of the policy to assure that investment activities are being performed in a prudent manner consistent with the intent of the Board and consistent with the prudent expert rule.

Because the Board annually reviews and establishes its policy for investments in its asset allocation sessions, the Board shall exercise its fiduciary responsibility to be informed and to exercise oversight as to the general principles established and actions taken by the Retirement Administrator in the implementation of the investment policy.

Therefore, the following reporting requirement shall be followed to allow the Board to monitor SDCERS investment operations and ensure compliance with the Board's policy directives:

- Within 30 days after the annual asset allocations have been established by the Board of Trustees, the Retirement Administrator will issue detailed letters of instruction to the staff of the San Diego City Employees' Retirement System setting forth the principles and procedures for implementing the investment policies and allocations set by the Board;

- No later than the second meeting after the asset allocations have been established by the Board, the Retirement Administrator will report to the Board on the general principles and procedures he has given the staff of the SDCERS for the strategic implementation of the investment policies and allocations set by the Board to the extent that such information can be reported in a public forum without damaging the interests of the Fund;

- No less than quarterly the Retirement Administrator shall, with the assistance of a professional investment consultant, report to the Board on the status of:

(1) equity investments in a manner that

(i) outlines the net amount of funds invested with each adviser during the quarter;

(ii) compares equity investment performances with a nationally or generally recognized index; and

(iii) contains such other information so that the Trustees are fully informed about the performance of the equity assets and allocations of the Fund in light of the policies established by the Trustees;

(2) fixed income investments in a manner that

(i) outlines the net amount of funds invested with each adviser during the quarter;

(ii) compares fixed-income performances with a nationally or generally recognized index; and

(iii) contains such other information so that the Trustees are fully informed about the performance of the fixed-income assets and allocations of the Fund in light of the policies established by the Trustees;

(3) real estate or other non-publicly traded investments, commitments, and proposed acquisitions in light of the policies and allocation goals established by the Trustees.

- At each monthly meeting the Retirement Administrator shall report on the comparison of overall asset allocation policy with actual portfolio status. The monthly report shall indicate the existence of, and reasons for, any excessive deviations that may have arisen between asset allocation policy and the actual status of the portfolio. Additionally, the report shall indicate what corrective action has been taken to rebalance the portfolio to its target allocations.

- Each month the Fund's investment advisors shall provide written reports on activities that occurred the previous month in equities and fixed-income portfolios. Reports on real estate investments or other non-publicly traded investment shall be provided quarterly. The reports shall include the composition of the investment advisors' portfolios, significant acquisitions or dispositions since the last report, and the current market value of the assets allocated to the investment advisors' portfolios.

- The Retirement Administrator, with the assistance of a professional investment consultant, shall report at least quarterly on the Fund's total performance, including the total return of the Fund for the last quarter, the last full year, the last three years, and the last five years.

Appendix E

LONG-TERM STRATEGIC PLANNING FOR ASSET ALLOCATION

Financial research has shown that over 90% of the variability in the performance of an investment fund is determined by its relative exposures to various asset classes. As such, the asset allocation decision is one of the most important decisions to be faced by SDCERS' Trustees. The Board of Administration of SDCERS has undertaken to engage in long-term investment strategy setting using asset allocation modeling to identify asset mixes expected to achieve, over the long-term, the actuarially expected rate of return with the least amount of risk as measured by variability (standard deviation) of returns.

The Board believes that an intermediate time horizon of three to five years is an appropriate period to strategically plan its asset allocation strategy and manager structure. In order to achieve this objective, the following procedures shall be performed.

- The Board of Administration or the Investment Committee, with the assistance of its Investment Consultant, will annually review forward looking capital market expectations delineating the expected return, risk and correlation characteristics of various asset classes.
- With the assistance of the Investment Consultant and staff, the Board will annually model the impact these capital market expectations have on various asset allocation mixes in order to establish an asset allocation policy strategy to be implemented and maintained over a three-to-five year period. This review process shall also include any manager structure adjustments necessary to implement the asset allocation policy.
- At lease every three to five years, the Board shall expand the asset allocation review process to include asset/liability modeling in order to evaluate the funding implications of the liability structure upon the both the risk profile of the asset allocation strategy and the ultimate net cost of funding the benefits.

- In conjunction with the annual review and adoption of policies for each asset class, the Board of Trustees will set asset allocation targets as well as rebalancing variance range limits around these target allocations. These targets and limits will serve to implement the three-to-five year goals.

Appendix F (revised 12/21/2007)

RISK CONTROL AND REBALANCING OF THE ASSET ALLOCATION PLAN

In order to control the risk profile of the asset allocation strategy, the Board has adopted an asset allocation re-balancing process that stipulates the target allocations to asset categories or to asset managers within asset categories not be allowed to exceed certain tolerance ranges specific to the expected volatility of each asset category and sub-category. This process provides each allocation an equal probability of "selling high or buying low" in response to capital market volatility regardless of each category's relative volatility or size in the overall portfolio. The rebalancing variance bands are defined in terms of a multiple of the expected standard deviation of each asset category.

The allowed variance range factor is: **+/- 1.95 standard deviations**.

This standard deviation factor is translated into percentage variance ranges for each asset category. These control parameters used to rebalance, adjust and maintain the asset allocation structure in response to market fluctuations shall be reviewed at least every three years or whenever there is a change in the asset allocation strategy.

To control the risk of the investment strategy, the Board of Administration delegates to staff the responsibility and authority to:

(i) Monitor the Trust Fund periodically and/or in response to extraordinary situations impacting investment market volatility; and

(ii) Determine whether or not any asset category is out of balance with its target asset allocation in excess of the specified tolerance range; and

(iii) Determine whether or not any investment manager within each asset category is out of balance with their target allocation in excess of the specified tolerance range; and

(iv) Initiate the process of instructing the relevant investment managers to liquidate the appropriate dollar value of securities and reallocate the cash thus generated to the category(s) or investment manager(s) necessary to bring the Trust Fund back into balance with the adopted target allocations; or

(v) Initiate the process of instructing the relevant investment managers to redirect cash income (interest coupon and dividends), in concert with an evaluation of other cash flows (employer and employee contributions) and pending commitments, in order to redirect cash to the category(s) or investment manager(s) necessary to bring the Trust Fund back into balance with the adopted target allocations.

Progress made toward attaining these objectives will be reported to the Board by the Retirement Administrator each month.

Appendix G

ASSET ALLOCATION TARGET WEIGHTINGS AND REBALANCING RANGES

The asset allocation target percentages and allowable variance (rebalancing) ranges are detailed in the table below.

Asset Classes & Manager Structure	**Target Allocations ***	**Allocation ** Rebalancing Ranges (Min/Max)**
Domestic Equity:		
Large Cap Growth	7.60%	4.63% - 10.57%
Large Cap Core	7.60%	4.98% - 10.22%
Large Cap Value	7.60%	5.15% - 10.05%
Mid Cap Core Growth	3.80%	2.31% - 5.29%
Mid Cap Core Value	3.80%	2.40% - 5.20%
Small Cap Growth	1.90%	0.87% - 2.93%
Micro Cap Growth	1.90%	0.59% - 3.21%
Small Cap Value	3.80%	2.38% - 5.22%
Subtotal Domestic Equity:	38.00%	
International Equity:		
International Growth	6.80%	4.14% - 9.46%
International Value	6.80%	4.22% - 9.38%
International Small Cap	3.40%	2.04% - 4.76%
Subtotal Int’l Equity:	17.00%	

Fixed Income:		
Defensive – Market Neutral	9.00%	8.12% - 9.88%
Core Plus Bonds	18.00%	15.31% - 20.69%
Convertible Bonds	3.00%	2.15% - 3.85%
Subtotal Domestic Fixed Income:	30.00%	
International Fixed Income	4.00%	2.96% - 5.04%
Real Estate	11.00%	7.46% - 14.54%
Total Target Allocation	100.00%	

*   Revised 7/21/06

** Updated 5/21/04

Appendix H (revised 2/18/2005)

SDCERS WATCH LIST/PROBATION CRITERIA

<u>CRITERION</u>	<u>WATCH LIST</u>	<u>PROBATION</u>
Performance	<u>**Active Equity**</u>**: Core or Diversified**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 200 or 100 basis points below the benchmark and/or a peer group ranking which falls below the 66th or 60th percentiles. **Style or Concentrated**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 300 or 150 basis points below the benchmark and/or a peer group ranking which falls below the 66th or 60th percentiles. <u>**Active Fixed Income**</u>**: Core or Diversified**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 50 or 25 basis points below the benchmark and/or a peer group ranking which falls below the 66th or 60th percentiles. **Style or Concentrated**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 100 or 50 basis points below the benchmark and/or a peer group ranking which falls below the 66th or 60th percentiles. <u>**Core Equity Index Funds** (S&P 500, Russell 1000)</u>**:** tracking error exceeding 5 basis points on an annualized basis. **Other Index Funds** (small cap, fixed income, non-U.S.)**:** tracking error exceeding 10 basis points on an annualized basis. <u>**Enhanced Index Funds:**</u> **Equity**; negative tracking error exceeding 100 basis points on an annualized basis. **Fixed Income**; negative tracking error exceeding 25 basis points on an annualized basis.	<u>**Active Equity**</u>**: Core or Diversified**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 250 or 125 basis points below the benchmark and/or a peer group ranking which falls below the 75th, or 66th percentiles. **Style or Concentrated**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 400 or 250 basis points below the benchmark and/or a peer group ranking which falls below the 75th or 66th percentiles. <u>**Active Fixed Income**</u>**: Core or Diversified**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 75 or 50 basis points below the benchmark and/or a peer group ranking which falls below the 75th or 66th percentiles. **Style or Concentrated**; for cumulative 3-year or 5-year rolling return periods, respective performance which is 150 or 75 basis points below the benchmark and/or a peer group ranking which falls below the 75th or 66th percentiles. <u>**Core Equity Index Funds** (S&P 500, Russell 1000)</u>**:** negative tracking error exceeding 5 basis points for 1-year or exceeding 10 basis points for 6 months. **Other Index Funds** (small cap, fixed income, non-U.S.): tracking error exceeding 20 basis points on an annualized basis. <u>**Enhanced Index Funds:**</u> **Equity**; negative tracking error exceeding 200 basis points on an annualized basis. **Fixed Income**; negative tracking error exceeding 50 basis points on an annualized basis.

Style	---→	Manager deviates from style for 4 or more quarters.
Organizational Change	Firm is under new ownership but the team responsible for the account remains intact and autonomous. Reorganization or turnover in top management, portfolio managers, research or trading staff that does not directly involve the SDCERS portfolio team.	Changes in ownership, organizational assignments, or turnover in personnel that impacts the team responsible for the SDCERS account.
Compliance	Violating investment guidelines or contractual agreement; purchasing unauthorized securities; leveraging the portfolio. Market Value of the SDCERS account exceeds 40% of the manager's assets managed in the subject product.	Violation of securities laws, industry regulations, or standards of professional conduct. Repeated violation of investment guidelines or contractual agreement evidencing inadequate compliance controls.
	Failure to meet reporting requirements or deadlines.	Failure to correct reporting problems.
	Depending on circumstances and severity of the violation, higher level of contract review may be recommended.	*Depending on circumstances and severity of the violation, termination may be recommended.*
Client Service <u>SDCERS</u>	Uncooperative or unprofessional conduct.	Failure to correct client service issues.
SDCERS Responses	For performance issues, manager will be monitored and reviewed more closely by staff and the investment consultant, including Investment Committee meetings with the manager at least every six months. Watch list status will end one year after the performance shortfall no longer exceeds the above criterion. Alternatively, continuing deterioration in performance will warrant review for placement on probationary status. Watch listing for operational issues shall remain in effect for one year from the date of occurrence.	For performance issues, probation shall last for at least one year. If deficient performance continues or worsens, alternative means of achieving the desired investment exposure will be researched and reported to the Board. A similar process will occur for repeated compliance problems. Probationary status will end when performance improves to watch list status or better or when the manager is replaced. Probationary status for operational issues shall remain in effect for one year from the date of occurrence.

Adopted 12/16/1999

Appendix I

SECURITIES LENDING

SDCERS' securities lending program provides the fund with an opportunity to earn incremental income and offset administrative expenses. The program may be managed by the Plan custodian, and/or qualified third-party securities lending agent(s). The lending program should remain transparent to SDCERS' external investment managers and should not impede their investment management process.

The securities lending program consists of two separate functions. The first function is the lending of SDCERS' eligible portfolio securities (domestic and international equities and bonds) to approved and qualified borrowers through an agent, subject to the terms and conditions specified in SDCERS' securities lending contract. Domestic loans must have a minimum initial collateralization level of 102% and international loans must have an initial collateralization level of at least 105%.

The second function is the reinvestment of cash proceeds generated by the lending of SDCERS' portfolio securities. This function is an investment management function, and as a result is governed by the same "prudent expert" rules employed by SDCERS' existing investment managers. Cash and non-cash collateral may be invested in commingled funds or in separately managed accounts. Non-U.S. dollar collateral for international loans may be invested in non-U.S. dollar assets.

Separately managed accounts will be managed in accordance with investment policies and guidelines adopted by the Board.

For separately managed accounts, Staff and the Investment Consultant shall monitor the securities lending program for compliance with contractual investment guidelines and policies pertaining to the reinvestment of cash proceeds. These guidelines and policies shall periodically be reviewed and, if needed, amended to incorporate any appropriate revisions. This will ensure that appropriate risk controls are maintained.

Appendix J

DOMESTIC EQUITY

Trust Fund assets may be invested in equity investments provided: 1) the equity is in a common or preferred stock and sold on a public or registered stock exchange of a country included in an index or benchmark used to measure an investment manager's performance, or is marketable because of the number of shares publicly held and traded; or (2) is in a diversified equity investment fund issued by an investment company registered with the SEC under the 1040 Act.

City of San Diego Council Resolution No. R-2835878 (Appendix C) states: The total investment in equities shall not exceed 70% of total assets of that portion of the Trust Fund not invested in real estate oriented investments.

Specific Investments Limitations

- Not more than 5% of the entire Trust Fund's equity portfolio shall be invested in the common stock of any one company nor shall any holding exceed 3% of the outstanding common stock of any one company, at the time of initial commitment.
- Not more than 10% of the equity portfolio, at market value, shall be invested in preferred stocks. Not more than 2% of the Trust Fund's equity portfolio shall be invested in the preferred stock of any one company nor shall any holding exceed 5% of the outstanding preferred stocks of any one company, in that particular issue, at market value.

Performance

Performance will be evaluated by comparing SDCERS' Domestic Equity Portfolios against appropriate benchmarks as well as against relevant similar style peer groups. The following table illustrates the various benchmarks used for the Domestic Equity Portfolios:

Asset Class	**Benchmark**
Large Cap Core	S & P 500
Large Cap Growth	Russell 1000 Growth
Large Cap Value	Russell 1000 Value
Mid Cap Core Growth	Russell Mid Cap
Mid Cap Value	Russell Mid Cap Value
Small & Micro Cap Growth	Russell 2000 Growth
Small Cap Value	Russell 2000 Value

INTERNATIONAL EQUITY

Trust Fund assets may be invested in equity investments provided: 1) the equity is in a common or preferred stock and sold on a public or registered stock exchange of a country included in an index or benchmark used to measure an investment manager's performance, or is marketable because of the number of shares publicly held and traded; or (2) is in a diversified equity investment fund issued by an investment company registered with the SEC under the 1040 Act. The total investment in all equities shall not exceed 70% of total assets of that portion of the Trust Fund not invested in real estate oriented investments.

City of San Diego Council Resolution No. R-2835878 (Appendix C) states: **Purchases of non-U.S. equities shall not exceed 40% of the total assets invested in equities.**

Approved Countries for Investment

Any country which has an operative financial exchange or over-the-counter market, a convertible currency, and a political, economic and investment structure which facilitates the availability of securities to foreign investors without excessive taxation may be considered for investment by SDCERS. Based upon the above considerations, countries that are included in the appropriate benchmark(s) by which a manager's performance is evaluated are approved for investment. Also approved are companies legally domiciled in tax haven countries such as Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Channel Islands, Liechtenstein, Luxembourg, Netherlands Antilles, Panama and the United States Virgin Islands.

Any limitations upon the relative exposures to the markets of approved countries shall be specified in the Specific Investment Guidelines of managers retained to invest on an international or global basis on behalf of SDCERS.

Specific Investment Limitations

- Not more than 5% of the entire Trust Fund's equity portfolio shall be invested in the common stock of any one company nor shall any holding exceed 3% of the outstanding common stock of any one company, at the time of initial commitment.

- Not more than 10% of the equity portfolio, at market value, shall be invested in preferred stocks. Not more than 2% of the Trust Fund's equity portfolio shall be invested in the preferred stock of any one company nor shall any holding exceed 5% of the outstanding preferred stocks of any one company, in that particular issue, at market value.

Performance

Performance will be evaluated by comparing SDCERS' International Equity Portfolios against appropriate benchmarks as well as against relevant peer groups. The following table illustrates the various benchmarks used for the International Equity Portfolios:

Asset Class	Benchmark
International Core/Emerging	MSCI AC World Free ex-US Index
International Small Cap	Citigroup Extended Market Index ex-US*

* SDCERS was using the Goldman Sachs World Med-Small Cap exUS Index through December 31, 2001. After that date, SDCERS began using the current benchmark.

DOMESTIC FIXED INCOME

Not more than 10% of the Trust Fund's fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government).

The types of investments allowed for SDCERS' Fixed Income Portfolios are:

Options - Use of options is authorized on a selective basis so long as they are not used to leverage the Trust Funds' portfolios.

Financial Futures - Use of financial futures is authorized on a selective basis so long as they are not used to leverage the Trust Funds' portfolios.

<u>Interest Rate and Credit Default Swaps</u> - (long and short) so long as they are not used to leverage the Trust Funds' portfolios.

<u>Corporate and Fixed Income Securities</u> - Trust Fund assets may be invested in debt securities, including convertible bonds and preferred stocks, provided the security is issued by a solvent corporation of a country included in an index or benchmark used to measure an investment manager's performance.

<u>Equities</u> – Trust Fund assets in the fixed income category may be invested in long and short publicly traded equity securities in structured, absolute return oriented, market neutral investment processes, so long as the net equity market exposure is not more than +/- 4% of an account's market value. This type of portfolio structure is expected to function as a shorter duration fixed income diversifier within the Trust Fund's asset allocation structure. The cash component of a market neutral account may be securitized to extend the duration exposure of the cash to that of a bond market index. Also, in conjunction with a significant rebalancing of the asset allocation structure, the cash component of a market neutral account may be securitized with equity futures to convert an account's fixed income exposure to that of an equity account.

<u>Government Securities</u> - Trust Fund assets may be invested in: a) securities issued by the U.S. Government, its agencies, and its instrumentalities; b) securities issued by a country included in an index or benchmark used to measure an investment manager's performance, and that country's provinces, cities, or municipal corporations; or, c) Brady bonds.

<u>Mortgages</u>- Trust Fund assets may be invested in mortgages offered by institutions or private parties. The mortgages, the properties and all other factors must satisfy the standards of the Investment Committee or a SDCERS Real Estate Investment Manager. Mortgages must be diversified both by area and usage. The combined value of mortgage debt with security interest and other real estate investments shall not exceed 40% of the total of the Trust Fund, at the time of initial commitment.

<u>Short Term, Liquid Investments</u> - Short term cash investments shall be subject to credit quality standards and restrictions as identified in the investment manager's contract. Short term investments also must be diversified as to issuer and type, except for obligations of the U.S. Government or its agencies.

Short term cash equivalent investments must be in one or more of the following:

- Certificates of Deposit
- U.S. Treasury Bills, Notes, and other obligations of the U.S. Government or its agencies
- Commercial paper rated A-1 by S&P or P1 by Moody's
- Demand notes of equivalent rating
- Money Market funds
- Bank and trust company short term investment funds (STIF)
- Repurchase and Reverse Repurchase Agreements
- Eurodollars Certificates of Deposit and time deposits of U.S. issuers
- Floating Rate Notes and Certificates of Deposit.

Additionally, the Board recognizes that pending asset allocation commitments may result in the periodic retention of cash reserves for the purpose of funding these approaching commitments. SDCERS may direct the investment of these periodic cash reserves by utilization of the above short term liquid investments and/or the utilization of actively managed enhanced cash investment vehicles. Actively managed cash vehicles shall be subject to duration or average maturity limitations of one year or less for investments which are priced to market, or three years or less for investments which are not priced to market.

Performance

Performance will be evaluated by comparing SDCERS' Domestic Fixed Income Portfolios against appropriate benchmarks as well as against relevant peer groups. The following table illustrates the various benchmarks used for the Domestic Fixed Income Portfolios:

Asset Class	Benchmark
Core Plus	Lehman Aggregate
Shorter Duration & Market Neutral	Merrill Lynch 1-5 Year Government/Corporate, and 90 day T-Bills plus 3%
Convertibles	Merrill Lynch Convertible Index, All Qualities

INTERNATIONAL FIXED INCOME

Not more than 10% of the Trust Fund's fixed income portfolio shall be invested in the debt security of any one issue at the time of initial commitment, except for U.S. Government obligations (or agencies and instruments of the U.S. Government).

City of San Diego Council Resolution No. R-2835878 (Appendix C) states: **Purchases of non-U.S. fixed income investments shall not exceed 40% of the total amount invested in fixed income.**

The types of investments allowed for SDCERS' International or Global Fixed Income Portfolios are:

Options - Use of options is authorized on a selective basis so long as they are not used to leverage the Trust Funds' portfolios.

Financial Futures- Use of financial futures is authorized on a selective basis so long as they are not used to leverage the Trust Funds' portfolios.

Interest Rate and Credit Default Swaps - (long and short) so long as they are not used to leverage the Trust Funds' portfolios.

Corporate Fixed Income Securities - Trust Fund assets may be invested in debt securities, including convertible bonds and preferred stocks, provided the security is issued by a solvent corporation of a country included in an index or benchmark used to measure an investment manager’s performance.

Government Securities - Trust Fund assets may be invested in: a) securities issued by the U.S. Government, its agencies, and its instrumentalities; b) securities issued by a country included in an index or benchmark used to measure an investment manager’s performance, and that country’s provinces, cities, or municipal corporations; c) Brady bonds; Supra-national agencies; or, d) Emerging Market debt instruments. The maximum exposure to Emerging Market debt shall not exceed 30% of the market value of the Trust Fund’s fixed income portfolio.

Short Term, Liquid Investments - Short term cash investments shall be subject to credit quality standards and restrictions as identified in the investment manager's contract. Short-term investments also must be diversified as to issuer and type, except for obligations of the U.S. Government or its agencies. Short term cash equivalent investments must be in one or more of the following:

- Certificates of Deposit
- U.S. Treasury Bills, Notes, and other obligations of the U.S. Government or its agencies
- Commercial paper rated A-1 by S&P or P1 by Moody's
- Demand notes of equivalent rating
- Money Market funds
- Bank and trust company short term investment funds (STIF)
- Repurchase and Reverse Repurchase Agreements
- Eurodollars Certificates of Deposit, Time Deposits and commercial paper
- Foreign government and supra-national agencies instruments
- Floating Rate Notes and Certificates of Deposit.

Approved Countries For Investment

Any country which has an operative financial exchange or over-the-counter market, a convertible currency, and a political, economic and investment structure which facilitates the availability of securities to foreign investors without excessive taxation may be considered for investment by SDCERS. Based upon the above considerations, countries that are included in the appropriate benchmark(s) by which a manager's performance is evaluated are approved for investment.

Any limitations upon or expansions to the relative exposures to the markets of approved countries shall be specified in the Specific Investment Guidelines of managers retained to invest on an international or global basis on behalf of SDCERS.

Foreign Currency Exposure

Foreign currency exposure will be based on the absolute value of all positions (long and short) versus the U.S. dollar. Both long and short foreign currency positions may be held without owning securities denominated in such currencies. Any minimum currency hedging requirements will be met through either hedged cash bond exposure or a combination of forward and derivative positions coupled with a long currency position in the same currency.

Performance

Performance will be evaluated by comparing SDCERS International Fixed Income Portfolios against an appropriate benchmark, as well as against its relevant peer group. Following table illustrates the various benchmarks used for the International Fixed Income Portfolios:

Asset Class	Benchmark
International Fixed Income	S&P Citigroup Non-U.S. Government Bond
Global Fixed Income	Blended: 78% Lehman Aggregate, 21% JP Morgan Non-U.S. hedged and 1% JP Morgan EMBI Global

REAL ESTATE

The Board has adopted specific policies and procedures concerning real estate investments. The Real Estate Strategic Plan Elements and Implementation Plan are attached as a separate section.

PRIVATE EQUITY (under construction)

On February 16, 2007, the Board approved the addition of Private Equity as an eligible asset class, up to a maximum of 5% (at cost at time of purchase) of Trust Fund assets.

On September 21, 2007, the Board approved a new asset target allocation policy that includes a 5% allocation of Total Fund assets to Private Equity.

Appendix K (adopted 11/15/2002)

LEGAL DIVISION SECURITIES LITIGATION POLICY

PURPOSE

The purpose of this policy is to establish procedures and guidelines for monitoring and participating in securities class actions when appropriate to protect SDCERS' interests.

PRINCIPLES

As a large institutional shareholder, SDCERS is frequently a class member in securities class actions that seek to recover damages resulting from alleged wrongful acts or omissions of others.

The enactment by Congress of the Private Securities Litigation Reform Act (PSLRA) in 1995 allows institutional investors and other large shareholders to seek lead plaintiff status in securities class actions. The lead plaintiff gains the right to supervise and control the prosecution of the case.

Since enactment of the PSLRA, it has been demonstrated that participation as lead plaintiff by large, sophisticated shareholders, particularly institutional shareholders, has resulted in lower attorney's fees and significantly larger recoveries on behalf of shareholders. The United States Securities and Exchange Commission and leaders in the legal community have commented that the governing board of a public pension system has a fiduciary duty to monitor securities class actions in which the system has an interest, and to participate as lead plaintiff where such participation is likely to enhance the recovery by members of the class.

STATEMENT OF FUNCTIONS AND RESPONSIBILITIES

1. Review of Class Action Filings

The Legal Services Division shall retain one or more law firms selected by an RFI process, to review the filing of class actions and, if SDCERS is a member of the class, to determine whether the case would be meritorious and worthy of further investigation. The firm shall report its findings to Legal Services with a recommendation as to whether SDCERS should actively monitor the case or seek lead plaintiff status. Retained counsel shall perform its monitoring services free of charge.

2. Active Case Monitoring

The Legal Services Division shall actively monitor each case in which it has determined the case has merit and SDCERS' estimated loss is $1 million or more. Active monitoring may include participation by Legal Services in significant motions prepared by one of the selected law firms and in settlement discussions when permitted by the parties or the court.

3. Participation as Lead Plaintiff

Legal Services shall recommend to the Investment Committee that SDCERS seek lead plaintiff status when (i) Legal Services, after consulting with outside counsel, has determined the case has merit and the best interests of SDCERS will be served, and; (ii) SDCERS' estimated loss is $2 million or more or SDCERS' estimated loss exceeds $1 million and lead plaintiff status will be sought jointly with one or more other public retirement funds.

4. Reports to the Board

The Legal Services Division shall provide the Investment Committee with annual reports covering its responsibilities under this policy.

5. Retention of Outside Counsel

The Legal Services Division shall select one or more firms to advise and/or represent SDCERS in class action matters. Firms will be selected based upon myriad factors including case analysis provided; representation of similarly situated entities; fee proposals; and history of advice to SDCERS. These factors must be evaluated on a case by case basis. Any agreements between SDCERS and a law firm shall be approved in advance by the Investment Committee and full Board.

CHANGES TO CURRENT PRACTICE

Currently, SDCERS' custodial bank, State Street, monitors class action lawsuits and files relevant claims on behalf of SDCERS given certain transaction activity within the relevant class period. SDCERS regularly collects damages with this level of participation. At the present time, however, SDCERS is not estimating its losses in any particular matter. This Policy addresses this gap in information.

Under this Policy, State Street will continue its claims monitoring procedure, which will be in addition to the free monitoring and case valuation provided by outside counsel.

This Policy formalizes the monitoring function being carried out by the Investments Division, and will create additional responsibilities for the Investment Committee and Legal Services Division.

No additional staffing requirements or significant expense will result from the implementation of this policy.

Appendix L

PROXY VOTING POLICY AND GUIDELINES

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

Authority:

The San Diego City Employees' Retirement System ("SDCERS") was created by ordinance pursuant to San Diego City Charter section 141. The plan operates by the authority of the charter for The City of San Diego, with benefits and administration defined in Charter sections 141 et seq., and San Diego Municipal Code sections 24.0100 et seq. Under the Charter, management of the City employees' retirement fund is vested in the Board of Administration for SDCERS ("Board").

Fiduciary Responsibility:

Under state law, the trustees of the Board shall be held to the standard of conduct of a fiduciary in discharging their responsibilities. Article XVI, S17 of the California Constitution provides in relevant part:

> Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement Board of a public Pension or retirement system shall have plenty [sic] [plenary] authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following:
>
> (a) The retirement Board of a public pension or Retirement system shall have the sole and exclusive Fiduciary responsibility over the assets of the public pension or retirement system. The retirement Board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system.

(b) The members of the retirement Board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty.

(c) The members of the retirement Board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

(d) The members of the retirement Board of a public pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

Other Fiduciary Responsibility:

The U.S. Department of Labor in February 1988 stated that under the Employee Retirement Income Security Act of 1974 ("ERISA") the right to vote shares of stock owned by a pension plan is, in itself, an asset of the plan, and therefore the fiduciary's responsibility to manage the assets includes proxy voting. Fiduciaries are required to develop and maintain a written proxy policy, vote in accordance with the written policy, and maintain accurate records of the proxy voting activities. Although SDCERS is not subject to ERISA, the SDCERS Board agrees with the principle that proxy voting is within the scope of its fiduciary responsibilities.

Finally, effective January 1, 1990, new reporting and recordkeeping requirements on employee benefit plans that invest in corporate stock were established. (California Corporation Code Section 711.) SDCERS has instituted recordkeeping requirements in compliance with this state law.

Proxy Voting Responsibilities:

To assist the Board in carrying out its fiduciary responsibilities in voting proxies, the Board has the authority to both set proxy voting policy and to vote proxies on behalf of SDCERS. The Board may choose to delegate the responsibility of the development of proxy voting policy and guidelines and the voting of all proxies to the Investment Committee and to the Retirement Administrator. In this case, the Board's General Counsel would serve as advisor to the Investment Committee for proxy issues.

Pursuant to the recommendation of the Investment Committee, the Board may also delegate the responsibility of voting all proxies to a contractual voting agent. If retained, the voting agent would be responsible for voting proxies in accordance with the SDCERS' Proxy Voting Policies and Guidelines.

If a voting agent is utilized, the Board, through the Investment Committee and the Retirement Administrator and staff, shall exercise general supervision over the agent to ensure that the SDCERS' Proxy Voting Policies and Guidelines are being followed and that the appropriate records are being kept.

The Retirement Administrator or designated staff is assigned the responsibility of ensuring that the proxy ballots are voted in accordance with the proxy voting guidelines established by the Investment Committee and adopted by the Board. The Retirement Administrator is also responsible for the maintenance of proxy voting records which reflect the manner in which all votes were cast.

The Investment Committee shall meet regarding proxy issues as necessary throughout the year. No later than March of each calendar year, the Investment Committee shall make its annual proxy-related report to the Board.

The attached Proxy Voting Policy and Guidelines were adopted on March 21, 2003, by the Board. Item 24 of the Domestic Proxy Voting Guidelines was added on July 9, 2003. Items 2, 18, 25 and 26 of the Domestic Proxy Voting Guidelines were added on March 19, 2004. Item 1 was modified on March 18, 2005. Item 1 was modified and Item 26 was added on March 17, 2006. The Proxy Voting Policy language was updated on August 18, 2006. Items 1, 2, 14, 25 and 27 were modified and Item 28 was added on April 20, 2007. Items 1, 2, 20, and 25 were modified and Item 29 was added on February 15, 2008.

Thomas C. Hebrank
President of the Board

Mark Sullivan
Vice-President of the Board

March 21, 2003
Revised July 9, 2003
Revised March 19, 2004
Revised March 18, 2005
Revised March 17, 2006
Revised August 18, 2006
Revised April 20, 2007
Revised February 15, 2008

DOMESTIC PROXY VOTING GUIDELINES

The Board has delegated the authority to vote all proxies to the Investment Committee and to the Retirement Administrator consistent with the Board's policies. Pursuant to the recommendation of the Investment Committee, the Board may also delegate the authority to vote proxies to a contractual voting agent. If retained, the voting agent shall be responsible for voting proxies in accordance with the SDCERS' Proxy Voting Policies and Guidelines.

The following guidelines are intended to assist in performing the proxy voting task. These are, however, merely guidelines. The Board recognizes that specific situations may call for unique responses. For this reason, the Investment Committee and Retirement Administrator are authorized, on a case-by-case basis to vote proxies which differ from these guidelines. A Glossary of Proxy Terms can be found as Appendix B.

When the guidelines require a case-by-case analysis by the Investment Committee or the Retirement Administrator on an issue, the contractual voting agent shall provide the Retirement Administrator, or designated staff, with a recommendation for the vote of the proxy. The Retirement Administrator, or designated staff, shall then request the recommendation of the individual investment manager. If the recommendations of the voting agent and the investment manager are the same, the Retirement Administrator, or designated staff, shall direct the voting agent to vote the proxy as originally recommended. However, if the two recommendations differ, the matter will be researched and evaluated by staff. The Retirement Administrator, or designated staff, shall then vote the proxy on behalf of SDCERS based on their best judgment. All voting activity conducted by the voting agent and designated staff shall be reported monthly to the Investment Committee and Board.

The Board also recognizes that some matters may be presented to shareholders in a combined form, in which the guidelines described below would call for inconsistent votes. The Investment Committee and Retirement Administrator are authorized to vote on such combined proposals on a case-by-case basis and in a manner that is consistent with the goal of protecting, preserving and maximizing the long-term interests of shareholders.

ISSUES

1. ELECTION OF DIRECTORS
(See related items #5, 10, 18, 25 & 27)

CASE-BY-CASE SDCERS believes that votes on Director nominees should be made on a CASE-BY-CASE basis, while examining the following factors:

- Composition of the Board and key Board Committees;
- Attendance at Board and Committee meetings;
- Corporate governance provisions and takeover activity;
- Disclosures under Section 404 of Sarbanes-Oxley Act;
- Long-term company performance relative to a market and peer index;
- Extent of the Director's investment in the company;
- Existence of related-party transactions;
- Whether the chairman is also serving as CEO;
- Whether a retired CEO sits on the Board;
- Number of outside Boards at which a Director serves;
- Majority vote standard for Director elections without a provision to allow for plurality voting when there are more nominees than seats.

WITHHOLD votes from individual Directors who;

- Attend less than 75 percent of the Board and Committee meetings without a valid excuse (such as illness, service to the nation, work on behalf of the company);
- Sit on more than six public company Boards;
- Are CEOs of public companies who sit on the Boards of more than two public companies besides their own -- withhold only at their outside Boards.

WITHHOLD from the entire Board of Directors, (except new nominees, who should be considered on a CASE-BY-CASE basis) if:

- The company's proxy indicates that not all Directors attended 75 percent of the aggregate Board and Committee meetings, but fails to provide the required disclosure of the names of the Director(s) involved. If this information cannot be obtained, withhold from all incumbent Directors.
- The company's poison pill has a dead-hand or modified dead-hand feature. Withhold every year until this feature is removed;
- The Board adopts or renews a poison pill without shareholder approval, does not commit to putting it to shareholder vote within 12 months of adoption or reneges on a commitment to put the pill to a vote, and has not yet been withheld from for this issue;
- The Board failed to act on a shareholder proposal that received approval by a majority of the shares outstanding the previous year;
- The Board failed to act on a shareholder proposal that received approval of the majority of shares cast for the previous two consecutive years;
- The Board failed to act on takeover offers where the majority of the shareholders tendered their shares;
- At the previous Board election, any Director received more than 50 percent withhold votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold rate;

- The company is a Russell 3000 company that underperformed its industry group (GICS group).
- The Board is classified, and a continuing director responsible for a problematic governance issue, that would warrant a withhold/against vote recommendation, is not up for election – any or all appropriate nominees (except new) may be held accountable.

WITHHOLD from Inside Directors and Affiliated Outside Directors when:
- The inside or affiliated outside Director serves on any of the three key Committees: Audit, Compensation, or Nominating;
- The company lacks an Audit, Compensation, or Nominating Committee so that the full Board functions as that Committee;
- The company lacks a formal Nominating Committee, even if the Board attests that the independent Directors fulfill the functions of such a Committee.
- The full Board is less than majority independent.

WITHHOLD from the members of the Audit Committee if:
- The non-Audit fees paid to the Auditor are excessive (see discussion under Auditor Ratification);
- Poor accounting practices are identified that rise to a level of serious concern, such as fraud, misapplication of GAAP, or material weaknesses identified in Section 404 disclosures; or
- There is persuasive evidence that the Audit Committee entered into an inappropriate indemnification agreement with its Auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the Audit firm.

WITHHOLD from the members of the Compensation Committee if:
- There is a negative correlation between CEO pay and company performance;
- The company reprices underwater options for stock, cash or other consideration without prior shareholder approval, even if allowed in the firm's equity plan;
- The company fails to submit one-time transfers of stock options to a shareholder vote;
- The company fails to fulfill the terms of a burn rate commitment made to shareholders;
- The company has backdated options;
- The company has poor Compensation practices. Poor pay practices may warrant withholding votes from the CEO and potentially the entire Board as well.

WITHHOLD from Directors, individually or the entire Board, for egregious actions or failure to replace management as appropriate.

EXPLANATION: Electing Directors is the most important stock ownership right that shareholders can exercise. By electing Directors who represent their interests, shareholders can help to define performance standards by which management can be held accountable. SDCERS believes the above criteria will assist in supporting responsible Director nominees who will add value for shareholders.

Continued …

2. SELECTION OF AUDITORS

FOR SDCERS will vote FOR proposals to ratify auditors, unless:

- An auditor has a financial interest in or association with the company, and is therefore not independent;
- Fees for non-audit services are excessive; or
- There is reason to believe the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position
- Poor accounting practices are identified that rise to a serious level of concern, such as: fraud, misapplication of GAAP, or material weaknesses identified in Section 404 disclosures.

If any of these cases occur, SDCERS will vote AGAINST the proposal.

CASE-BY-CASE SDCERS will vote shareholder proposals dealing with the issue of auditor rotation on a CASE-BY-CASE basis. Decisions will take the following into account: the tenure of the firm, length of the rotation period advocated in the proposal, the establishment and renewal process where the auditor is regularly reviewed, any significant audit-related issues, the number of annual Audit Committee meetings held, and the number of financial experts that serve on the Audit Committee.

The majority of an auditor's work/fees should be based on audit services and not on consulting or non-audit services. In the event of shareholder proposals suggesting a prohibition or cap level to non-audit services, SDCERS will decide these on a CASE-BY-CASE basis.

3. INCREASE AUTHORIZED COMMON STOCK

CASE-BY-CASE SDCERS will vote on a CASE-BY-CASE basis on proposals to increase the number of shares of common stock authorized for issuance after analyzing the company's industry and performance in terms of shareholder returns. This analysis shall be based upon input from both the proxy voting agent and the asset manager in a manner similar to other case-by-case proxy items.

4. BLANK CHECK PREFERRED STOCK

AGAINST SDCERS opposes blank check preferred stock unless management provides an explanation of the financial purpose and benefit of the issuance, and details all voting rights that are associated with the preferred stock.

Continued …

5. CLASSIFIED BOARD
(See related items #1, 10, 18, 25 & 27)

AGAINST SDCERS will vote AGAINST proposals to classify the Board.

FOR In the event of a proposal to declassify the Board, SDCERS will generally vote FOR such a proposal so that all Directors may be elected annually.

6. FAIR PRICE PROVISIONS

FOR Fair price provisions require a bidder to pay the same "fair" price for all shares purchased. Fair price is defined as the highest price paid by the bidder for shares acquired before the start of a tender offer. Most fair price proposals are intended to discourage two-tier tender offers to purchase fewer than all of a target company's shares at a premium above market price and then later, after gaining control of the target, offer less for the remaining shares outstanding.

7. LIMITING SHAREHOLDERS' RIGHT TO CALL SPECIAL MEETINGS

AGAINST Votes will be cast against management proposals to restrict or prohibit shareholders' ability to call special meetings. In addition, votes will be cast for shareholder proposals to allow or make easier the shareholders' ability to call for special meetings.

8. LIMITING SHAREHOLDERS' RIGHT TO ACT BY WRITTEN CONSENT

AGAINST Votes will be cast against management proposals to restrict or prohibit shareholders' ability to take action by written consent. In addition, votes will be cast for shareholder proposals to allow or make easier shareholder action by written consent.

9. SUPERMAJORITY VOTE REQUIREMENTS

AGAINST Votes will be cast against management proposals to require a supermajority vote to amend any bylaw or Charter provision. In addition, votes will be cast FOR shareholder proposals to lower supermajority requirements to amend any charter or bylaw provision. Votes will also be cast AGAINST any supermajority requirement to approve mergers and other business combinations. In addition, votes will be cast FOR shareholder proposals to lower supermajority vote requirements for mergers and other business combinations.

EXPLANATION: SDCERS believes that supermajority voting requirements set a level of approval for specified actions that is higher than the minimum set by state law. These requirements often exceed the level of shareholder participation at a meeting, making action that requires supermajority approval all but impossible.

Continued …

10. DIRECTOR LIABILITY AND INDEMNIFICATION
(See related items #1, 5, 18, 25 & 27)

AGAINST Votes will be cast against company proposals that request the elimination or limitation of Director's liability for acts involving gross negligence, or their violations of the duty of care that go beyond reasonable standards.

11. STOCK OPTION PLANS
(See related items # 21, 22 & 28)

CASE-BY-CASE SDCERS will vote each stock option plan on a CASE-BY-CASE basis using cost and dilution analysis provided by the voting agent.

EXPLANATION: SDCERS generally supports stock option plans on the grounds that they help attract, hold and motivate corporate personnel and tie their interests more closely to those of the shareholders. However, since each plan is different, it is necessary to look at the terms and coverage of each plan. As a result, SDCERS takes different positions depending on the terms and coverage of the stock option plan at issue.

12. REINCORPORATION

CASE-BY-CASE SDCERS believes that proposals to change a company's state of incorporation should be evaluated on a CASE-BY-CASE basis.

EXPLANATION: Corporations may wish to reincorporate in another state to take advantage of favorable corporate law, while providing maximized shareholder values and operational flexibility. Recognizing, however, the high degree of variance possible in the types and forms of other issues possible in the proposals, SDCERS will evaluate each proposal on a CASE-BY-CASE basis.

In the case of shareholder proposals dealing with companies incorporated in offshore tax havens, SDCERS will weigh each proposal on a CASE-BY-CASE basis to determine the value added to shareholders and whether the proposal will positively impact the company or negatively impact subsequent shareholder governance.

13. MERGERS, RESTRUCTURINGS AND SPINOFFS

CASE-BY-CASE Given the unique qualities of each merger, SDCERS will make a determination about each merger on a CASE-BY-CASE basis. (See the attached Appendix A for additional guidance in evaluating mergers.)

Continued …

14. POISON PILLS

CASE-BY-CASE SDCERS believes that both Management and shareholder proposals regarding poison pills should be decided on a CASE-BY-CASE basis. Strong consideration will be given to the economic impact of the proposal and its impact on the company's value.

EXPLANATION: Because of both their positive and negative effects, SDCERS believes that shareholder proposals to redeem a company's poison pill should be examined on a case-by-case basis. Likewise, management proposals to ratify a poison pill should be examined on a case-by-case basis.

15. CONFIDENTIAL VOTING

FOR SDCERS supports confidential voting, independent tabulations and inspections because proxy voting should have the same safeguards as voting in any other election, and be free of any potential for coercion. It is SDCERS' preference that corporation by-laws be amended to include confidential voting.

16. ANTI-GREENMAIL

FOR Votes are to be cast in favor of shareholder proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

EXPLANATION: Greenmail is the payment a raider receives from a company in exchange for his shares and a guarantee to terminate a takeover bid. This payment is usually a premium above the market price, so while greenmail can ensure the continued independence of a company, it discriminates against other stockholders. The payment of greenmail may also have an adverse effect on corporate image, among both business associates and consumer.

Anti-greenmail proposals may be offered by either shareholders or management. When offered by management, they are frequently coupled with anti-takeover provisions that by themselves are less popular with shareholders.

17. OPT OUT OF STATE ANTI-TAKEOVER LAW

FOR SDCERS favors shareholder proposals to opt out of state anti-takeover laws.

Continued …

18. OPEN/EQUAL ACCESS TO THE PROXY (See related items #1, 5, 10, 25 & 27)

CASE-BY-CASE SDCERS will evaluate shareholder proposals for open or equal access to the proxy statement on a CASE-BY-CASE basis. Open or equal access to the proxy encourages shareholder involvement in evaluating the performance of the Board by allowing shareholder nominees for Director positions on the proxy. Decisions on these shareholder proposals will take into account the ownership threshold in the proposed resolution and the proponent's rationale for the proposal.

19. GOLDEN PARACHUTES

FOR SDCERS supports and will vote FOR proposals to have golden parachutes evaluated by shareholders.

AGAINST SDCERS is opposed to and will vote AGAINST any severance agreements that give more than three times the base salary (the Internal Revenue Service limit for excessive compensation) during the five years prior to the triggering of the protection, to key individuals.

20. CUMULATIVE VOTING

FOR SDCERS will generally support proposals to restore or provide for cumulative voting unless:

- The company has proxy access or a similar structure to allow shareholders to nominate directors to the company's ballot; and
- The company has adopted a majority vote standard, with a carve-out for plurality voting in situations where there are more nominees than seats, and a director resignation policy to address failed elections.

SDCERS will also support proposals for cumulative voting at controlled companies (insider voting power > 50%).

AGAINST SDCERS will generally vote AGAINST proposals to eliminate cumulative voting.

21. EXECUTIVE COMPENSATION (See related items #11, 22 & 28)

CASE-BY-CASE SDCERS will review all proposals that attempt to grant excessive executive and Director salary and non-salary benefits (i.e. SERPs) on a CASE-BY-CASE basis.

FOR SDCERS will vote FOR any shareholder proposal that seeks additional disclosure of executive and Director pay and retirement benefit information.

Continued …

22. EXPENSING OF STOCK OPTIONS
(See related items #11, 21 & 28)

FOR SDCERS will generally support shareholder proposals to expense options.

AGAINST SDCERS would not support such a shareholder resolution if the company has already committed to expensing options by a specific date.

23. SOCIAL AND ENVIRONMENTAL PROPOSALS

ABSTAIN SDCERS will abstain from voting on social and environmental shareholder proposals unless the proposals have a clear and beneficial impact on the finances or operations of the company.

24. ANTI-DISCRIMINATION AND EQUAL OPPORTUNITY IN THE WORKPLACE

FOR SDCERS will generally support shareholder proposals seeking anti-discrimination and equal opportunity in the workplace.

25. SEPARATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER POSITIONS
(See related items #1, 5, 10, 18 & 27)

CASE-BY-CASE SDCERS will generally support shareholder proposals requiring the position of chairman to be filled by an independent Director. However, due to alternative governance structures, SDCERS will vote each proposal on a CASE-BY-CASE basis, taking into account the following:

- A designated lead Director, elected from the independent Directors, with clearly delineated duties.
- 2/3 independent Board,
- All independent key Committees,
- Established governance guidelines,
- The company should not have underperformed both its peers and index on both a one-year and three-year total shareholder returns basis, unless there has been a change in the Chairman/CEO position within that time,
- The company does not have any problematic governance issues,
- The company discloses a comparison of the duties of its independent lead director and its chairman, and

The company discloses a sufficient explanation of why it chooses not to give the position of chairman to the independent lead director, and instead combine the chairman and CEO positions.

Continued …

26. SHAREHOLDER PROPOSALS

CASE-BY-CASE SDCERS will evaluate shareholder proposals related to direct business issues and Board governance issues that may directly impact shareholder value on a CASE-BY-CASE basis.

EXPLANATION: With the rise of shareholder proposals in recent years, there are other issues that can be brought forward not explicitly called out in SDCERS' guidelines. SDCERS believes that all shareholder proposals are important and should receive appropriate attention. SDCERS will vote each proposal that directly relates to the company's profitability and stock performance on a CASE-BY-CASE basis. SDCERS will continue to ABSTAIN from all social and environmental proposals.

27. MAJORITY THRESHOLD VOTING
(See related items #1, 5, 10, 18 & 25)

FOR SDCERS will generally support precatory and binding shareholder proposals requesting that the Board change the company's bylaws to stipulate that Directors need to be elected with an affirmative majority of votes cast, provided it does not conflict with the state law where the company is incorporated. Binding resolutions should also allow for a plurality vote standard when there are more nominees than Board seats. In the case of a holdover Director, SDCERS supports companies that also adopt a post-election policy (Director resignation policy) so that the company will promptly address this situation.

28. PERFORMANCE-BASED EQUITY PROPOSALS
(See related items #11, 21 & 22)

FOR SDCERS will generally support shareholder proposals advocating the use of performance-based equity awards (i.e. performance-contingent options or restricted stock, indexed options or premium-priced options), unless the proposal is overly restrictive or the company has demonstrated that it is using a substantial portion of performance-based awards for its top executives. Additionally, SDCERS will also assess the company's performance-based equity program, if one exists, when evaluating such proposals.

EXPLANATION: SDCERS generally supports the principle of performance-based pay. SDCERS feels that there should be a strong linkage between the company's performance and compensation at the senior executive level.

Continued …

29. ADVISORY VOTE ON EXECUTIVE COMPENSATION "SAY-ON-PAY" MANAGEMENT PROPOSALS

CASE-BY-CASE SDCERS will vote CASE-BY-CASE on management proposals for an advisory vote on executive compensation. SDCERS will generally vote AGAINST resolutions in cases where boards have failed to demonstrate good stewardship of investors' interests regarding executive compensation practices. The following principles and factors will be considered when making a vote decision:

- Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
- Avoid arrangements that risk "pay for failure";
- Maintain an independent and effective compensation committee;
- Provide shareholders with clear, comprehensive compensation disclosures; and
- Avoid inappropriate pay to non-executive directors.

For U.S. companies, SDCERS will vote on a CASE-BY-CASE basis with consideration given to the following factors:

-**Relative Considerations:** Assessment of performance metrics relative to business strategy, evaluation of peer groups used to set target pay and award opportunities, alignment of company performance and executive pay trends over time, and the assessment of disparity between total pay of the CEO and other Named Executive Officers.

-**Design Considerations:** Balance of fixed versus performance-driven pay, and the assessment of excessive practices with respect to executive bonuses, severance packages, supplemental executive pension plans, and burn rates.

-**Communication Considerations:** Evaluation of information and board rationale about how compensation is determined and the assessment of the Board's responsiveness to investor input and engagement on compensation issues.

Appendix L-A (Addendum to Appendix L)

San Diego City Employees' Retirement System
Guidelines For Analyzing Mergers

When proposals for mergers are referred from the proxy voting agent to SDCERS for voting, the matter will be researched and evaluated by staff. The Retirement Administrator, or designated staff, shall then vote the proxy on behalf of SDCERS based on their best judgment. The following items should be addressed when researching and evaluating all referred merger items:

1. General Background

2. What is the reason for the merger?

3. State the key provisions of the agreement.

4. Who will have management control?

5. How will the securities be converted?

6. Graphic depiction of before and after merger. Who owns what percentage of the company?

7. Who will benefit from the merger?

    a. Is management unfairly benefiting from this deal?

8. If additional stock is to be issued in conjunction with the merger, what will the company get in exchange for the stock issuance?

    a. Capital

    b. Shares of the acquired company

9. What are the opinions of financial advisors? Call the investment manager who is holding this security for their opinion.

10. Other considerations:

    a. Will the merger involve closing offices/plants and laying off employees?

    b. Environmental impacts.

Appendix L-B (Addendum to Appendix L)

San Diego City Employees' Retirement System
Glossary of Proxy Terms

<u>Affiliated Outside Directors</u> – Directors who are not employees of the corporation, or who do not beneficially own more than 50 percent of the company's voting power, but who, because of a family or business relationship with the company, cannot be assumed to be truly independent in judgment.

A Director is considered affiliated to the company if any of the following conditions are met:
- Former executive of the company or its affiliates
- Relative of a current employee of the company or its affiliates
- Relative of a former executive of the company or its affiliates
- Provided professional services to the company or its affiliates or to its officers either currently or within the past year
- Employed by a significant customer or supplier
- Has a transactional relationship with the company or its affiliates excluding investments in the company through a private placement
- Interlocking relationships as defined by the SEC involving members of the Board of Directors or its Compensation and Stock Option Committee
- Founder of the company buy not currently an employee
- Trustee, Director or employee for a charitable or non-profit organization that received grants or endowments from the company or its affiliates
- Board attestation that an outside Director is not independent

<u>Blank Check Preferred Stock</u> – A popular term for preferred stock in which the Board of Directors is given broad discretion to establish voting, conversion, dividend and other rights of preferred stock at the time the Board issues the stock. Some Boards that have authority to issue blank check preferred stock have used it to create takeover defenses.

<u>Burn Rate</u> – A measure for how fast a company will use up its shareholder capital.

<u>Classified Board</u> – A company that has a classified, or staggered, Board is one in which Directors are typically divided into three classes, with each class serving three-year terms; each class reelection occurs in different years. Whereas, a declassified Board has Directors that serve one-year terms, and the entire Board is elected annually.

<u>Confidential Voting</u> – Also known as closed voting or voting by secret ballot, under confidential voting procedures, all proxies, ballots and voting tabulations that identify shareholders are kept confidential. Independent vote tabulators and inspectors of election are responsible for examining individual ballots, while management and shareholders are only told vote totals.

<u>Cumulative Voting</u> – Normally, shareholders cast one vote for each Director for each share of stock owned. Cumulative voting permits shareholders to apportion the total number of votes they have in any way they wish among candidates for the Board. Where cumulative voting is in effect, a minority of shares may be able to elect one or more Directors by giving all of their votes to one or several candidates.

Expensing of Stock Options – Stock options represent a bona fide cost to companies and shareholders, which should be reflected in the income statement. Expensing options would provide greater transparency of the company's earnings and profitability, as well as curb excessive option grants. Currently, fixed-price options enjoy a favorable accounting and tax treatment over other forms of compensation, including indexed options which are more closely tied to firm performance.

Fair Price Requirements – Fair price requirements compel anyone acquiring control of a corporation to pay all shareholders the highest price that the acquirer pays to any shareholder during a specified period of time. Fair price requirements may be included in a corporation's charter, or in state business incorporation statutes. Fair price requirements are intended to deter two-tier tender offers in which shareholders who tender their shares first receive a higher price for their shares than other shareholders.

Golden Parachutes – A popular phrase for severance agreement that provide generous benefits to top executives who are fired or who resign following a change in management control. Some golden parachutes can be deployed even without a change in control if a potential acquirer crosses a specified ownership threshold.

Greenmail – Greenmail refers to the practice of repurchasing shares from a bidder at an above-market price in exchange for the bidder's agreement not to acquire the target company. Greenmail is widely considered to be a form of blackmail. Some companies have attempted to deter greenmail by adding anti-greenmail provisions to their charters.

Holdover Director – This situation occurs when an incumbent Director is not elected to the Board using the Majority Voting Standard. The incumbent Director will continue to serve as a "Holdover" Director until the Director's successor is duly elected and qualified.

Increase Authorized Common Stock – Companies increase their supply of common stock for a variety of ordinary business purposes: raising new capital, funding stock compensation programs, business acquisitions and implementation of stock splits or payment of stock dividends. When proposing an increase, companies will request a number of authorized shares that provides a cushion for unexpected financing needs or unanticipated opportunities. Shareholders should scrutinize requests for additional authorized shares by companies that have used stock to fund lavish incentive compensation programs or to finance mergers that have not enhanced shareholder value.

Independent Directors – Independent Director is defined as a Director that has no connection to the company other than Board seat. Even if a Director has served on the Board for over ten years, a Director is still considered to be independent.

Inside Directors – A Director who also serves as an employee of the company or a non-employee officer of the company who is one of the five most highly paid individuals. As an employee of the company, an inside Director may not be able fulfill one of their primary obligations: to oversee and evaluate management on behalf of shareholders. Directors who have beneficial ownership of more than 50 percent of the company's voting power are also defined as inside Directors.

Majority Threshold Voting – A voting system in which the winning candidate must receive more than 50% of the votes cast.

Poison Pill – The popular term for a takeover defense that permits all shareholders other than an acquirer to purchase shares in a company at a discount if the company becomes a takeover target. A company with a pill (also known as a shareholder rights plan) usually distributes warrants or purchase rights that become exercisable when a triggering event occurs. The triggering event occurs when an acquirer buys more than a specified amount of a target company's stock without permission of the target company's Board. Once the pill is triggered, shareholders (except for the acquirer) usually have the right to purchase shares directly from the target company at a 50 percent discount, diluting both ownership interest and voting rights. Most pills have provisions that permit the Board to cancel the pill by redeeming the outstanding warrants or rights at nominal cost. Pills can force acquirers to bargain directly with a target company's Board, but they can also be used to deter or to block acquisition bids altogether. Corporations are not required by law to submit their poison pills for shareholder approval, and very few companies have chosen to seek shareholder approval.

Plurality Voting – A voting system in which the winning candidate receives the highest number of affirmative votes cast. The Director is elected irrespective of how small the number of affirmative votes is in comparison to the total number of shares voted. For example, a Director could be elected with one affirmative vote and several million withheld votes under the plurality voting system.

Reincorporation – Reincorporation refers to changing the state of incorporation. A company that reincorporates must obtain shareholder approval for the move and for the new charter it adopts when it shifts its state of incorporation. Many reincorporations involve moves to Delaware to take advantage of Delaware's flexible corporate laws.

Stock Options – Give holders the right to purchase stock at a fixed price for a specified period of time. The difference between the exercise price and the market price is called the "spread" and constitutes the reward to the option holder. The value of an option grant is heavily dependent on the volatility of a particular company's stock. The more volatile the company's stock, the more valuable the option grant. Thus, options are usually most valuable at high-growth, low-dividend companies.

Supermajority – Most state corporation laws require that mergers, acquisitions and amendments to the corporate charter by approved by a majority of the outstanding shares. A company may, however, set a higher requirement by obtaining shareholder approval for a higher threshold. Some supermajority requirements apply to mergers and acquisitions. Others apply to amendments to the charter itself – that is, the charter, or certain parts of it, may be amended in the future only if the amendments receive the specified supermajority level of support.

Written Consent – The ability to act by written consent allows shareholders to take action collectively without a shareholders' meeting. The written consent procedure was developed originally to permit closely held corporations to act quickly by obtaining consents from their shareholders. The procedure is, however, available in many states to publicly traded companies as well, unless prohibited or restricted in a company's charter. Many companies have sought shareholder approval to restrict or abolish the written consent procedure; their principal reason for doing so is to prevent takeovers opposed by the incumbent Board and management.

Appendix M

INVESTMENT AUTHORITY DELEGATED BY THE BOARD OF ADMINISTRATION

Manager Termination

A. Administrative Termination of Investment Manager for Cause

The Board delegates to Staff the authority to immediately suspend the trading activity of an investment manager and /or to administratively terminate an investment manager under the following circumstances:

1. Significant losses or departures of a firm's investment professionals responsible for the conduct and management of the investment process.
2. Significant violations of a firm's Specific Investment Guidelines for SDCERS or significant sanctions imposed on a firm for breach of law or regulatory requirements and standards.
3. Discovery of material misrepresentations concerning a firm's expertise, experience, track record or other operational factors that call into question the firm's ability to consistently and reliability deliver the investment service hired for by SDCERS.

Staff shall notify the Investment Committee Chairperson and Board President regarding the circumstances warranting the suspension of a firm's trading activity and obtain the concurrence of both of these Board Officers prior to exercising an administrative termination.

The Board shall be informed by its next regularly scheduled meeting of the circumstances leading to Staff's action and what interim fiduciary oversight has been arranged to manage the impacted portfolio.

B. Investment Manager Termination Recommendation due to Watch List Criteria

Staff shall recommend to the Investment Committee and Board the action to terminate an investment manager in accordance with Watch List criteria for performance, organizational issues or compliance issues as summarized below:

Performance - Depending on the strategy and expected performance, Staff and SDCERS' Investment Consultant will review and monitor relative and absolute underperformance of a Watch List investment manager to determine if a replacement manager search is warranted. At that time, Staff will prepare a written recommendation for the manager's termination effective upon the identification of a replacement investment manager. The terminated investment manager will be instructed of the Board's action, in writing, and will be directed to freeze purchasing activity in the account and to only sell positions in accordance with their security sell discipline.

Organizational Issues - If the termination recommendation is due to unresolved organizational issues, Staff and Investment Consultant will work to identify a replacement investment manager and the same process identified above will be followed.

Compliance - If the termination recommendation is as a result of unresolved compliance issues, Staff will identify a specific course of action in a written report for Board action. Compliance issues may warrant more expeditious remedy and as such, Staff may identify an interim solution for consideration that may include: indexing the impacted allocation, establishing a futures position to gain asset class exposure during the portfolio transition, or moving securities to an existing SDCERS' investment manager executing a similar mandate.

Hiring Investment Managers

Either SDCERS' Staff or the Investment Consultant will conduct manager searches as described below. If the Investment Consultant is performing the manager search, these roles will be reversed. Final action to approve hiring investment managers shall remain with the Investment Committee and Board.

Staff and the Investment Consultant shall work collaboratively on manager searches with one party conducting the search and the other providing oversight and guidance.

1. Working together, Staff and the Investment Consultant will develop search specifications to identify the nature of the investment process sought, i.e. a diversified, low tracking error process versus a more concentrated, higher tracking error process. Firms will be screened based upon criteria such as: track record, minimum amount of assets under management, a qualitative assessment of the portfolio management and research teams, and how their investment style/process complements SDCERS' existing asset allocation and manager structure.

2. Written information and representations will be requested from the pre-screened firms. Staff will review this information, and, with input from SDCERS' Investment Consultant, will select at least three semi-finalist firms for further consideration.

3. The party conducting the manager search (either Staff or the Investment Consultant) will prepare a written status report on the manager search process for the Investment Committee. The report will review the search criteria, the process undertaken, and how many firms responded (if a questionnaire was issued). Also included will be a list of the semi-finalist firms that have been identified for further review and due diligence.

4. The party conducting the manager search will then identify a finalist candidate firm. The Chief Investment Officer will ensure that an on-site due diligence visit to the finalist candidate firm's office is conducted to verify the manager's investment process and to meet the portfolio managers, research teams and compliance personnel.

5. Staff will prepare a written report that identifies the recommended candidate, discusses the results of the due diligence visit, and includes the Investment

Consultant's review of Staff's search process and recommendation. The recommendation to hire will be put on the Investment Committee Agenda for review. The final candidate will be available at the Investment Committee meeting to make a brief presentation or answer any questions. If approved, the Investment Committee shall forward the selection recommendation to the Board for final approval.

6. Investment Staff and SDCERS' Legal Division will complete an Investment Management Agreement, which includes Specific Investment Guidelines for the management of the portfolio, for the Board President and investment firm to sign.

7. The Investment Committee and Board shall exercise on-going fiduciary oversight of the investment management firm through quarterly performance monitoring, manager watch list policy and firm updates from Staff/Investment Consultant.

Appendix N

SPECIFIC INVESTMENT GUIDELINES (SIGS) AND PERFORMANCE BENCHMARKS

DOMESTIC EQUITY STRATEGIES – SECTION N-1

Manager Name	Strategy	Date of Hire	Date of Last Amendment to SIGs	Page Number
Delta Asset Management	Large Cap Core	March 1995		N-1a
Intech (Janus)	Large Cap Core	Nov 2005		N-1b
TCW Asset Management	Large Cap Growth	July 2002		N-1c
Dodge & Cox	Large Cap Value	Apr 2003		N-1d
Globeflex Capital Management	Mid Cap Growth	July 1995		N-1e
TCW Asset Management	Mid Cap Value	Oct 2002		N-1f
Putnam Investments	Small Cap Growth	Jan 1990		N-1g
Wall Street Associates	Small Cap Growth	July 1995		N-1h
Dimensional Fund Advisors	Small Cap Value	Sept 1995		N-1i
Putnam Investments	Small Cap Value	Dec 1991		N-1j

INTERNATIONAL EQUITY STRATEGIES – SECTION N-2

Manager Name	Strategy	Date of Hire	Date of Last Amendment to SIGs	Page Number
McKinley Capital Management	Int’l Large Cap Growth	Feb 2007		N-2a
Brandes Investment Partners	Int’l Large Cap Value	June 1995		N-2b
Globeflex Capital Management	Int’l Small Cap Core	Feb 2007		N-2c
GMO & Company, LLC	Int’l Small Cap Value	June 2002		N-2d

DOMESTIC FIXED INCOME STRATEGIES – SECTION N-3

Manager Name	**Strategy**	**Date of Hire**	**Date of Last Amendment to SIGs**	**Page Number**
Nicholas-Applegate Capital Management	Convertibles	Aug 1995		N-3a
Metropolitan West Asset Management	Core Plus	July 2001		N-3b
PIMCO	Core Plus	Feb 1989		N-3c
Pyramis (Fidelity) Global Advisors	Market Neutral	Dec 2002		N-3d
Salus Capital Management	Market Neutral	Mar 1998		N-3e
SSI Investment Management	Market Neutral	Dec 2001		N-3f

INTERNATIONAL FIXED INCOME STRATEGIES – SECTION N-4

Manager Name	**Strategy**	**Date of Hire**	**Date of Last Amendment to SIGs**	**Page Number**
Rogge Global Partners	Int'l Fixed Income	Apr 1996		N-4a

EXHIBIT "B"

DELTA ASSET MANAGEMENT
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

January 1995

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To generate above-average returns with below average risk in both up and down markets with a large capitalization equity portfolio.

4. Performance Benchmarks:

   A. Passive Index: S&P 500 Index, plus 1.0%.

   B. Manager Universe: Top 4 deciles of Callan database of all equity managers and of managers with similar style.

   C. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested in only common stocks, common stock indexes, and cash. Cash and cash equivalents generally should not exceed 5% of the portfolio; however, during certain time periods where preservation of capital is of paramount importance, cash may approach 25%.

   B. At the time of purchase, no more than 4% of the portfolio, on a market value basis, will be invested in any single security, and subsequent to purchase, no single security shall comprise more than 5% of the portfolio. It is expected that the portfolio will hold between 70 and 80 securities.

   C. Stocks held in the portfolio will primarily be of quality, fundamentally strong companies. No purchase of investment letter stock or non-marketable securities shall be made without approval by the San Diego City Employees' Retirement System.

   D. The portfolio is expected to have a median market capitalization of approximately $8.9 billion and a weighted average market capitalization of approximately $26 billion, as of December, 1994.

E. Portfolio sector weightings of the economic sectors will be no less than 1/2x and no greater than 2x that of the market as represented by the S&P 500 benchmark index.

F. Foreign securities will not be purchased except for those listed on U.S. exchanges or traded as NASDAQ securities.

G. Portfolio turnover is expected to average between 20% to 50% annually, except during periods of business cycle phase rotation.

H. In general, Delta will invest within a large universe of stocks screened for the following characteristics:

- Stocks will be chosen from market sectors and industries that are expected to benefit from the current economic environment.
- Stocks that possess positive fundamental momentum which may be expected to lead to accelerated earnings growth within 6 to 12 months.
- Superior valuation relative to the S&P 500 benchmark and attractive expected earnings growth rate.

6. Loss Taking: No restriction.

7. Proxy Voting: SDCERS will retain the responsibility to vote all proxies.

EXHIBIT "C"

INTECH
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

April 23, 2008

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active domestic equity management.

3. Objective: To achieve superior long-term performance while maintaining a risk profile commensurate with the S&P 500 benchmark index.

4. Performance Benchmarks:

   A. Passive Index: S&P 500, plus 1.75% annualized

   B. Tracking Error: +/- 2.25% annualized to the index

   C. Manager Universe: Top 4 deciles of Callan database of domestic large cap core managers.

   D. Measurement Period: 3 to 5 years.

5. Guidelines:

   A. The portfolio will generally be fully invested at all times in common stocks with cash and cash equivalents limited to that necessary to support cash flows. The equity investment policy is established by the application of a mathematical process developed by INTECH. This approach involves no specific sector or security selection decisions based on fundamentals. The investment process is designed to determine more efficient equity weightings of the securities held in the portfolio utilizing a specific mathematical formula to optimize and rebalance.

   B. ADVISOR will invest in stocks included in the benchmark index, screened to eliminate potential bankruptcy or illiquidity situations, which is currently based on the following exclusion characteristics:

      - stocks that comprise less than 1 basis point in the index,
      - stocks that trade at less than $5-$10 a share.

The above screens may be modified in the future. The Advisor will notify SDCERS of any changes to the above screens. It is expected that the notification will occur within 30 day of any changes.

C. INTECH's optimization process establishes target weights for securities within the portfolio and, at optimization, equity investments in any one security are limited to no more than the weight of the security in the benchmark plus 1%. INTECH's trading system allows a slightly greater maximum difference around benchmark weights, and as such, actual portfolio weights may slightly exceed the maximum differential over time due to market action. This risk control measure essentially prevents the portfolio from being too over-weighted in stocks that represent a very small portion of the index and from being too under-weighted in stocks that represent a very large percentage of the index.

D. The investment process seeks to combine stocks with higher relative volatility and lower covariance in optimized weights. Those weightings are then maintained over time and the portfolio will be periodically re-optimized and rebalanced.

E. As a result of the portfolio construction process, the weighted average market capitalization of the portfolio will tend to be smaller than that of the benchmark index.

F. The ADVISOR may not purchase foreign securities or ADR's, unless they are included in the benchmark index.

G. Annual turnover varies but will generally fall between 50% and 80%. The rebalancing techniques used by INTECH may result in a higher portfolio turnover rate and related expenses compared to a "buy and hold" or index strategy.

6. <u>Loss Taking</u>: No restriction.

7. <u>Proxy Voting</u>: SDCERS will retain responsibility to vote all proxies.

8. <u>Accounting</u>: ADVISOR will use the same cost accounting method as the custodial bank (average cost basis).

Amended 4/23/08

SCHEDULE C

TCW ASSET MANAGEMENT COMPANY SPECIFIC INVESTMENT GUIDELINES FOR SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

April 2003

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To provide superior long-term returns.

4. Performance Benchmarks:

   A. Benchmark Index: Russell 1000 Growth Index, plus 1.5% annualized.

   B. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be primarily invested in equity securities and cash. Cash and cash equivalents generally should not exceed 10% of the portfolio.

   B. The portfolio is not expected to be weighted among industry groups in the same proportions that the groups are weighted in the benchmark index.

   C. It is expected that at the time of initial investment, no more than 10% of the portfolio, on a market value basis, may be held in any single security and subsequent to initial investment, no single security is expected to constitute more than 20% of the Portfolio. It is expected the portfolio will hold between 25 and 40 securities.

6. Loss Taking: No restrictions.

7. Proxy Voting:

   Client has designated a proxy voting agent to vote proxies in accordance with the Client's Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

   Upon client's request, Manager shall provide Client's Investment Staff with vote recommendations. The analysis should detail the Manager's voting guideline pertinent to the proxy agenda item and the rationale for the vote recommendation. The analysis and vote recommendation shall be forwarded to Client's Investment Staff in a timely manner, prior the company's meeting date.

SCHEDULE B

CONCENTRATED CORE INVESTMENT GUIDELINES

The Account managed by the TCW entity named in the contract (the "Manager"):

1. will invest principally in equity securities, including common and preferred stocks, securities that may be converted into or exchanged for stock (such as convertible debt and preferred stock), Depository Receipts, Depository Shares, and other securities designed to replicate an index, industry or sector of the economy.

2. will generally invest in large capitalization companies. At times the Account may receive securities from an issuer with a lower market capitalization as a result of a corporate action with respect to a security held by the portfolio (e.g. a corporate spin-off) and the Manager may retain the securities if it deems it appropriate.

3. will not be broadly diversified, but rather, will focus intently on the companies owned, and will not dilute the potential performance of those stocks in which the Manager has the greatest confidence. The Account may include large concentrations relative to its benchmark in the securities held and in certain industries and sectors of the economy.

4. will generally hold securities listed on an established exchange (including NASDAQ) or 144A securities.

5. may invest in securities of non-U.S. companies, primarily those listed on a U.S. or Canadian established exchange (including NASDAQ or its equivalent) or in the form of Depository Receipts or Depository Shares.

6. may invest in cash and cash equivalents (including STIF funds, money market funds and money market instruments), but will generally be fully invested; although at times it may take time to invest contributions received from the client or sales proceeds depending on the Manager's views regarding market conditions, market outlook and the particular stocks in which the Manager wishes to invest.

7. may invest in initial public offerings and 144As if the client has provided the requisite certifications so that the Manager knows the client is qualified or if the Manager has otherwise determined the client is qualified.

8. may not invest in Regulation S securities; GICs; commodities; currencies; futures; swaps; forward contracts; straddles; spreads; caps; floors; collars; foreign exchange contracts; any other securities related to managing interest rate or currency risk; securities issued by states, municipalities and their agencies;

direct investments in real estate (including mortgages, leasebacks, land loans, trust deeds and equity real estate but not including REITs); direct investments in oil, gas or other mineral exploration (including leases, mineral rights and royalty contracts); derivatives other than the types permitted elsewhere in the guidelines; art objects or other collectibles; venture capital securities; purchases for the purpose of exercising control or management; securities issued by the Manager; and fixed income (other than cash and cash equivalents or other fixed income instruments permitted in the guidelines).

9. may not invest in puts, calls, options and warrants except that the Account may receive them from an issuer as a result of a corporate action with respect to a security held by the portfolio.

10. may not engage in short sales; margin; lending cash or securities; and mortgaging, pledging or hypothecating any assets of the Account.

Compliance with any investment guidelines, limitations or restrictions applicable to the Account shall be determined at the time of investment (also called purchase) unless specifically stated to be at market value. Compliance at time of investment will be based on the most recent valuation utilized by the Manager and will not be affected by events subsequent to such purchase, including, without limitation, withdrawals, changes in characterization, value or rating of any specific portfolio securities or economic conditions or events generally affecting any securities of the type held by the Account; such compliance will also be computed based on the full amount to be funded by the Client, whether or not all such amounts have been received by the Manager.

RISK FACTORS

An investment in the Account involves various risks, including the risk that an investor can lose capital. While the Manager strives to attain the investment objective of the Account through its research and portfolio management skills, there is no guarantee of successful performance, that the objective can be reached or that a positive return can be achieved. In addition to the information set forth elsewhere herein, the following factors should be considered:

Equities

All equity investments involve risks stemming from economic changes and stock market fluctuations as well as unexpected adverse changes in the operations of the individual companies owned. In addition, because of its concentrated nature, the portfolio may have a higher than average level of volatility.

Diversification

The Manager does not observe rigid policies requiring specific levels of portfolio diversification in terms of industry, type of security, or size of issuer. Although the portfolio will be diversified, it may include large concentrations relative to its benchmark in the securities held and in certain industries and sectors of the economy. Accordingly, the portfolio may be subject to wider fluctuations in value than would be the case if it were subject to broader diversification requirements.

Foreign Securities

Investing in foreign equities involves certain risks, including: political or economic instability, unpredictability of international trade patterns, the possibility of adverse foreign governmental actions such as expropriation, nationalization or confiscatory taxation, the imposition or modification of exchange controls, withholding taxes on dividends, interest and gains, as well as fluctuations in currency exchange rates. Compared to United States companies, foreign issuers often disclose publicly less financial and other information and are subject to less stringent and less uniform accounting, auditing and financial reporting standards. Also, it may be more difficult to obtain and enforce legal judgments against foreign issuers than against domestic issuers.

EXHIBIT "C"

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT ADVISORY AGREEMENT
SPECIFIC INVESTMENT GUIDELINES

DODGE & COX

Effective April 10, 2003

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To achieve superior long-term performance while maintaining a risk profile commensurate with a primarily large capitalization, value style, domestic equity portfolio.

4. Performance Benchmarks:

A.	Passive Index:	S&P 500 Index, plus 1.0%. Russell 1000 Value Index, plus 1.0%.
B.	Manager Universe:	Top 4 deciles of Callan database of all equity managers and of managers with similar style.
C.	Measurement Period:	3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested in only equity securities, including common stock, preferred stock, debt securities convertible into common stock, Real Estate Investment Trusts (REITs), and cash or cash equivalents. Cash and cash equivalents generally should not exceed 5% of the portfolio; however, during certain time periods where preservation of capital is of paramount importance, cash may approach 10%.

   B. At the time of purchase, no more than 5% of the portfolio, on a market value basis, will be invested in any single security and that subsequent to purchase no single security will constitute more than 7.5% of the portfolio. It is expected that the portfolio will be well diversified and hold securities of a minimum of 40 issuers.

   C. Stocks held in the portfolio will primarily be of established companies. No purchase of investment letter stock, initial public offerings, or non-marketable securities shall be made without approval by the San Diego City Employees'

Retirement System.

D. Individual securities will be purchased from issuers with a minimum market capitalization of $1 billion at the time of purchase.

E. Portfolio weights in industry sectors may range between 0% and 400% of that of the benchmark index, the Russell 1000 Value, or a 25% weighting, whichever is greater.

F. Foreign securities will not be purchased except for Canadian shares, ADRs and equity securities of foreign companies traded on registered U.S. exchanges or NASDAQ and such securities must be U.S. dollar denominated.

G. Under normal circumstances, portfolio turnover is expected to range between 5% to 40% annually.

H. In general, Dodge & Cox will invest within a large universe of stocks and construct a portfolio of securities with the following characteristics:

Portfolio Management
- Diversified Portfolio
- Low Turnover of Equities

Company Characteristics
- Established Companies
- Financially Sound Companies

Valuation Characteristics
- Below Average Price-to-Book Value
- Below Average Market Capitalization-to-Sales

6. Loss Taking: No restriction.

7. Proxy Voting: SDCERS will retain responsibility to vote all proxies. When requested, ADVISOR will provide SDCERS with ADVISOR's analysis and vote recommendation on any specific proxy agenda item.

EXHIBIT B-1

GlobeFlex Capital, L.P.
Specific Investment Guidelines for
San Diego City Employees Retirement System

Domestic Mid-Cap Equity

February 2007

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To provide superior long-term returns in both growth and value markets with lower volatility than that of either style used independently.

4. Performance Benchmarks

   A. Passive Index: S&P Mid-Cap Index, plus 2%.

   B. Manager Universe: Top 4 deciles of domestic mid-cap equity managers.

   C. Measurement Period: 3 to 5 years minimum.

   D. Tracking error: +/- 5% annualized to the S&P Mid-Cap index.

5. Guidelines:

   A. The portfolio will be invested only in common stocks and cash. Cash holdings will generally not exceed 5% of the portfolio.

   B. On average, the portfolio is expected to hold between 90 and 110 stocks. At the time of initial purchase, individual holdings are generally expected to be equal weighted and diversified across industries.

   C. The portfolio is expected to consist of stocks with market capitalizations ranging from $500 million to $15 billion at the time of purchase with an average portfolio capitalization ranging from $6 billion to $10 billion over time.

   D. The portfolio will not hold more than 5% of the outstanding shares of any single company.

Globeflex Capital Management
Domestic Equity Mid Cap Growth
N-1e

E Average annual portfolio turnover is expected to be approximately 80%.

F In general, portfolio holdings will maintain at least a B+ Standard & Poor's quality rating.

G. In general, stocks in the portfolio will be evaluated for the following characteristics:

- Long-term earnings growth potential based upon historic and expected earnings.
- Low price-to-free-cash-flow ratio.
- Rising investor expectations of earnings accompanied by corresponding market action.

6. Loss Taking: No restrictions.

7. Proxy Voting: SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Advisor shall provide the SDCERS Investment Analyst a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis should focus on the expected financial impact of the proposal on the company and SDCERS' equity position in the company. The analysis and vote recommendation shall be forwarded to the Investment Analyst of SDCERS in a timely manner, prior the company's meeting date.

8. Accounting: ADVISOR will use the same cost accounting method as the custodial bank (average cost basis).

EXHIBIT "C"
TRUST COMPANY OF THE WEST
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

October 2002

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To provide superior long-term returns with lower non-systematic risk than the benchmark.

4. Performance Benchmarks:

   A. Passive Index: Russell Mid-Cap Index, plus 2%.

   B. Manager Universe: Top 4 deciles of Callan database of all equity managers and of managers with similar style.

   C. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be primarily invested in equity securities and cash. Cash holdings will not exceed 8% of the portfolio.

   B. Individual portfolio holdings will generally have a maximum of 5% of the total portfolio at time of purchase.

   C. The portfolio is not expected to be weighted among industry groups in the same proportions that the groups are weighted in the benchmark index.

   D. On average, the portfolio will hold more than 50 stocks diversified across industry groups.

   E. The portfolio is expected to consist of primarily of stocks with market capitalizations within the range of the Russell Mid Cap Value index.

   F. Portfolio turnover is expected to range from 30% to 150% annually.

   G. In general, stocks in the portfolio will be screened for the following characteristics:

TCW Asset Management
Domestic Equity Mid Cap Value
N-1f

- Sufficient market liquidity as determined by average daily trading volume.

- Unrecognized Asset Values - Securities selling below probable liquidation values, including companies selling below net working capital or tangible book value, or companies whose plant is not realistically valued relative to potential earnings generation or replacement costs.

- Undervalued Growth - Companies that can demonstrate growth rates of at least 10% to 20%, strong balance sheets, and whose stocks sell at less than a market multiple (based on annualized earnings) and/or with a price-earnings multiple at a discount to its group.

- Turnarounds - Companies with sound balance sheets whose securities are selling at significant market discount to estimated 24-month sustainable earnings.

- Relatively low debt-to-equity ratios.

- High quality ratings from published services such as Standard & Poor's and Ford.

6. Loss Taking: No restrictions.

7. Proxy Voting:

SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Advisor shall provide the SDCERS Investment Analyst a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis should focus on the expected financial impact of the proposal on the company and SDCERS's equity position in the company. The analysis and vote recommendation shall be forwarded to the Investment Analyst of SDCERS in a timely manner, prior the company's meeting date.

EXHIBIT B-1

PUTNAM ADVISORY COMPANY, INC.
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
DOMESTIC OTC EMERGING GROWTH PORTFOLIO

September, 1999

1. Type of Fund: Tax-exempt defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objectives: To achieve superior long-term performance while maintaining a risk profile commensurate with a typical growth-oriented small market capitalization equity portfolio.

4. Performance Benchmarks:

   A. Passive Index: Russell 2000 Growth Index, plus 2.0%.

   B. Manager Universe: Top 4 deciles of the Callan database of all equity managers and of managers investing in a similar style.

   C. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested in only common stocks and cash equivalents. Cash equivalents will not exceed 5% of the portfolio on a market value basis.

   B. At the time of purchase, no more than 3% of the portfolio, on a market value basis, will be invested in any single security and subsequent to purchase no single security will constitute more than 5% of the portfolio.

   C. Stocks held in the portfolio will primarily be of quality, fundamentally strong companies. No purchase of investment letter stock or non-marketable securities shall be made without approval by SDCERS.

D. The portfolio's weighted average market capitalization will not exceed 1.2 times the weighted average capitalization of the Russell 2000 Growth Index.

E. Foreign securities will not be purchased except for those listed on U.S. exchanges or traded as NASDAQ securities.

F. Portfolio turnover is expected to average between 50% and 100% annually.

G. In general, Putnam will invest in stocks of companies exhibiting the following characteristics:

- a record of superior achievement relative to their competitors over the previous 3 to 5 years;
- earnings per share or cash flow growth rates of at least 17% during the next 3 to 5 years;
- above average ROE vs. Both the S&P 500 and NASDAQ composite indices;
- low debt-to-capitalization ratio, generally averaging between .20 and .25;
- a management team with a significant portion of its financial future tied to the fortunes of the company; and
- less than 50% institutional ownership at the time of initial investment.

6. Loss Taking: No restrictions.

7. Sales Of Stock Due To Growth In Market Capitalization:

Stocks that have reached sufficient market capitalization to warrant consideration of elimination from the portfolio will first be offered to SDCERS's mid-cap growth equity manager and sold via crossing network or other low-cost alternative. If the mid-cap growth equity manager declines acceptance of the stock, advisor may sell it in the open market in the usual manner.

8. Proxy Voting:

SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Advisor shall provide the SDCERS Investment Analyst a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis should focus on the expected financial impact of the proposal on the company and SDCERS's equity position in the company. The analysis and vote recommendation shall be forwarded to the Investment Analyst of SDCERS in a timely manner, prior to the company's meeting date.

EXHIBIT "B"

WALL STREET ASSOCIATES
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

June 1995

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To provide superior long-term returns with greater volatility than the benchmark.

4. Performance Benchmarks:

   A. Passive Index: Russell 2000 Growth Index, plus 2.0%.

   B. Manager Universe: Top 4 deciles of Callan database of all equity managers and of managers with similar style.

   C. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested only in common stocks and cash. Cash holdings will not exceed 10% of the portfolio.

   B. At the time of purchase, no more than 3% of the portfolio, on a market value basis, will be invested in any single security, and subsequent to purchase, no single security shall comprise more than 5% of the portfolio.

   C. The portfolio is expected to be diversified across economic sectors. The portfolio should not exceed 35% of its market value in any single sector, as defined by a four digit SIC code.

   D. On average, the portfolio will hold between 70 and 75 stocks.

   E. The portfolio is expected to consist of stocks with market capitalizations ranging from $20 million to $200 million at the time of purchase.

   F. Portfolio turnover is expected to average 150% annually.

Wall Street Associates
Domestic Equity Small Cap Growth
N-1h

G. In general, stocks in the portfolio will be screened for the following characteristics:

- Projected 12-month earnings growth of greater than 20%.
- Strong balance sheets, i.e., low debt, high return on equity, and strong operating margin.
- Attractive valuations as indicated by a price-to-earnings ratio of less than 1/2 the earnings per share growth rate.
- Potential for positive earnings surprise.
- Innovative business concept such as industry dominance, technological leadership, and/or a commitment to research and development.
- Strong management team with a history of successful entrepreneurship and the ability to build an effective infrastructure around growing products.

6. Loss Taking: No restrictions.

7. Proxy Voting:

SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Advisor shall provide the SDCERS Investment Analyst a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis should focus on the expected financial impact of the proposal on the company and SDCERS's equity position in the company. The analysis and vote recommendation shall be forwarded to the Investment Analyst of SDCERS in a timely manner, prior to the company's meeting date.

Excerpts from the DFA Group Trust
Marked to Illustrate Effect of Amendment Effective as of February 1, 2001

Article II, Sections 3 and 4:

3. The Group Trust shall be divided into various Subtrusts from time to time as DFA shall direct. The Subtrusts shall be as described in subparagraphs below. Each Subtrust shall, in accordance with directions from DFA, be separately held, managed, administered, valued, invested, reinvested, distributed, accounted for and otherwise dealt with. The respective Subtrusts will be operated and maintained exclusively for the collective investment and reinvestment of the assets of Participating Trusts primarily in accordance with the following general purposes:

(a) **The Small XM Subtrust (formerly** the 6-7-8 Subtrust**)** will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in a broad and diverse group of the common stocks of **small cap** companies **whose stock is** traded on a principal exchange or on the over-the-counter market ~~whose market capitalization is in the market capitalization of any company whose market capitalization is in the 6th, 7th or 8th decile of those companies whose common stock is listed on the New York Stock Exchange.~~ **as identified in accordance with Investment Guidelines established by DFA from time to time and set forth on Schedule A to this Trust Agreement and provided by DFA to the Trustee and to each Participating Trust with assets invested in this Subtrust.**

~~(b) the Small Company Subtrust~~**(b) The Micro Cap Subtrust (formerly the Small Company Subtrust)** will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in a broad and diverse group of the common stocks of ~~small~~ **micro cap** companies **whose stock is** traded on a principal exchange or on the over-the-counter market ~~whose market capitalization is not larger than the largest market capitalization of any company whose market capitalization is in the fifth quintile of companies (smallest 20%) of those companies whose common stock is listed on the New York Stock Exchange.~~ **as identified in accordance with Investment Guidelines established by DFA from time to time and set forth on Schedule A to this Trust Agreement and provided by DFA to the Trustee and to each Participating Trust with assets invested in this Subtrust.**

~~(c) the 6-10 Subtrust~~**(c) The Small Cap Subtrust (formerly the 6-10 Subtrust)** will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in a broad and diverse group of the common stocks of **small cap** companies **whose stock is** traded on a principal exchange or **on** the over-the-counter market ~~whose market capitalization is equal to the market capitalization of any company whose market capitalization is in the 6th, 7th, 8th, 9th or 10th decile of those companies whose common stock is listed on the New York Stock Exchange.~~ **as identified in accordance with Investment Guidelines established by DFA from time to time and set forth on Schedule A to this Trust Agreement and provided by DFA to the Trustee and to each Participating Trust with assets invested in this Subtrust.**

~~(d) the 6-10 Subtrust II will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in a broad and diverse group of the common stocks of companies traded on a principal exchange or the over-the-counter market whose market capitalization is equal to the market capitalization of any company whose market capitalization is in the 6th, 7th, 8th, 9th or 10th decile of those companies whose common stock is listed on the New York Stock Exchange; provided, however, the 6-10 Subtrust II shall not invest in the common stock of any company described above if investment into the stock of such company would violate generally applicable investment guidelines of a Participating Trust, the Participating Trust recommends that no investment be made in the stock of such company and DFA approves such recommended action.~~ **(d) [Reserved].**

~~(e) the 1-5 Subtrust will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in a broad and diverse group of the common~~

~~stocks of companies traded on a principal exchange or the over the counter market whose market capitalization is equal to the market capitalization of any company whose market capitalization is equal to the 1st, 2nd, 3rd, 4th or 5th decile of those companies whose common stock is listed on the New York Stock Exchange~~**(e) [Reserved]**.

(f) The Five-Year Fixed Income Subtrust will be operated and maintained with the investment objective to maximize total returns available from the universe of higher quality debt obligations which mature within five years from the date of settlement, such as U.S. Government obligations, U.S. Governmental Agency obligations, dollar-denominated obligations of foreign issuers issued in the U.S., bank obligations, including U.S. subsidiaries and branches of foreign banks, bankers' acceptances, high quality corporate obligations, commercial paper and repurchase agreements for U.S. Government securities. Generally, the Subtrust will acquire obligations which mature within five years from the date of settlement.

(g) The DFA Fixed Income Subtrust will be operated and maintained with the investment objective to achieve stable real value of capital by investing in high quality debt obligations which mature within two years from the date of settlement such as U.S. Government obligations, U.S. Governmental Agency obligations, dollar-denominated obligations of foreign issuers issued in the U.S., bank obligations including U.S. subsidiaries and branches of foreign banks, bankers' acceptances, high quality corporate obligations, commercial paper and repurchase agreements for U.S. Government securities. Generally, the Subtrust will acquire obligations which mature within two years from the date of settlement.

(h) The Five Year Government Subtrust will be operated and maintained with the investment objective to maximize total returns available from the universe of U.S. Government and U.S. Governmental agency debt obligations which mature within five years from the date of settlement.

(i) The International Small Company Subtrust II will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in a broad and diverse group of readily marketable stocks of small companies (herein defined as Japanese Small Company, United Kingdom Small Company and European Small Company stocks), whose shares are traded in securities markets located in those countries; provided, however, the International Small Company Subtrust II shall not invest in the stock of any company described above: (a) if investment in the stock of such company would violate generally applicable investment guidelines of a Participating Trust which have been acknowledged and accepted by DFA or (b) if the Participating Trust recommends that no investment be made in the stock of such company and DFA approves such recommended action. DFA shall provide 30 days advance notice to each Participating trust of any change in such investment guidelines and of any additional approved recommendations. The term "Japanese Small Company" means a Japanese company whose market capitalization is not larger than the largest of those in the smaller one-half of companies whose securities are listed in the First Section of the Tokyo Stock Exchange. A "United Kingdom Small Company" means a company organized in the United Kingdom, with shares listed on the International Stock Exchange of the United Kingdom and the Republic of Ireland, whose market capitalization is not larger than the median sized constituent company included in the Financial Times -- Actuaries All Share Index. A "European Small Company" is a company, organized under the laws of France, Germany, Italy, Switzerland, the Netherlands, Sweden, Belgium, Norway or Spain with publicly traded stock whose market capitalization is equal to or less than the largest of those in the smallest 20% of companies listed in the Financial Times -- Actuaries World Index for each such country. The investment in European Small Company Stocks shall initially be restricted to such stocks in France, Germany and Italy and shall be expanded to the other European countries listed above at such time, in such order and in such manner as DFA in its sole discretion shall determine.

(j) The **Small Cap Value Subtrust (formerly the** 6-10 Value Subtrust) will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in ~~approximate proportion to their market capitalization in the common stocks of~~ a broad and diverse group of ~~United States~~ **the common stocks of small cap value** companies **whose stock is** traded on a principal exchange or on the ~~NASDAQ National Market system (i) whose market capitalization is equal to the market capitalization of companies in the 6th, 7th, 8th, 9th or 10th deciles of those companies listed on the New York Stock Exchange and (ii) whose book value to market value ratios equal or exceed the book value to market value ratios of~~

~~those companies included in the group of the 30% of companies listed on the New York Stock Exchange having the highest book value to market value ratios, all as determined by DFA on at least a semi-annual basis.~~ **over-the-counter market as identified in accordance with Investment Guidelines established by DFA from *time to time and set forth on Schedule A to this Trust Agreement and provided by DFA to the Trustee and to* each Participating Trust with assets invested in this Subtrust.**

(k) The Large Cap Value Subtrust will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in ~~approximate proportion to their market capitalization in the common stocks of~~ a broad and diverse group of ~~United States~~ **the common stocks of large cap value** companies **whose stock is** traded on a principal exchange or on the ~~NASDAQ National Market System (i) whose market capitalization equals or exceeds the market capitalization of the company with the median market capitalization of those companies listed on the New York Stock Exchange and (ii) whose book value to market value ratios equal or exceed the book value to market value ratios of those companies included in the group of the 30% of companies listed on the New York Stock Exchange having the highest book value to market value ratios, all as determined by DFA on at least a semi-annual basis.~~ **over-the-counter market as identified in accordance with Investment Guidelines established by DFA from time to time and set forth on Schedule A to this Trust Agreement and provided by DFA to the Trustee and to each Participating Trust with assets invested in this Subtrust.**

~~(l) The 4-10 Value Subtrust~~**(l) The Small XM Value Subtrust (formerly the 4-10 Value Subtrust)** will be operated and maintained with the investment objective to achieve long-term capital appreciation for Participating Trusts by investing in ~~approximate proportion to their market capitalization in the common stocks of~~ a broad and diverse group of ~~United States~~ **the common stocks of small cap value** companies **whose stock is** traded on a principal exchange or on the ~~NASDAQ National Market System (i) whose market capitalization is equal to the market capitalization of companies in the 4th, 5th, 6th, 7th, 8th, 9th or 10th deciles of those companies listed on the New York Stock Exchange and (ii) whose book value to market value ratios equal or exceed the book value to market value ratios of those companies included in the group of the 30% of companies listed on the New York Stock Exchange having the highest book value to market value ratios, all as determined by DFA on at least a semi-annual basis.~~ ***over-the-counter market as identified in accordance with Investment Guidelines established* by DFA from time to time and set forth on Schedule A to this Trust Agreement and provided by DFA to the Trustee and to each Participating Trust with assets invested in this Subtrust.**

~~4. The market capitalization ranges specified in paragraphs 3(a), (b), (c), (d), (e), (i), (j), (k) and (l) of this Article II for the 6-7-8 Subtrust, Small Company Subtrust, 6-10 Subtrust, 6-10 Subtrust II, 1-5 Subtrust, International Small Company Subtrust II, 6-10 Value Subtrust, Large Cap Value Subtrust and 4-10 Value Subtrust and the book value to market value ratio ranges specified in paragraphs 3(j), (k) and (l) of this Article II for 6-10 Value Subtrust, the Large Cap Value Subtrust and the 4-10 Value Subtrust shall apply to the acquisition of Securities for those Subtrusts but DFA shall have no obligation to direct that a Security of a company held by a Subtrust be sold because the company is no longer within the market capitalization or book value to market value ratio range of that Subtrust. DFA may in its discretion direct the sale of Securities of a company with a market capitalization significantly in excess of the market capitalization range of the Subtrust in which it is held or a book value to market value ratio significantly below the book value to market value ratio range of the Subtrust in which it is held. DFA shall have no obligation to direct the sale of Securities of a company with a market capitalization significantly below the market capitalization range of the Subtrust in which it is held and such a Security will not normally be sold even if the decline in market capitalization reflects a serious financial difficulty or potential or actual insolvency of the company, provided, however, that with respect to the Large Cap Value Subtrust, DFA may in its discretion direct the sale of Securities of a company with a market capitalization significantly below the market capitalization range of the Large Cap Value Subtrust. DFA may in its absolute discretion direct the sale of any Security at any time when, in DFA's judgement, circumstances warrant its sale, including without limitation circumstances involving tender offers, mergers, and similar transactions, and in response to bids made for blocks at opportune prices. However, the primary objective of each Subtrust shall be the long term investment in each Security acquired and DFA will not normally direct the sale of a Security solely to realize short term gain or to avoid a potential loss.~~ **4. [Reserved.]**

Article IV, Section 1, Paragraph (a):

1. The Group Trust shall be invested and reinvested, without distinction between principal and income, as the Trustee shall be directed by DFA, in accordance with the following provisions:

(a) the ~~1 5~~ **Small XM** Subtrust~~,~~ **(formerly** the 6-7-8 **Subtrust), the Small Cap** Subtrust~~,~~ **(formerly** the 6-10 Subtrust~~,~~**),** the ~~6 10~~ **Micro Cap** Subtrust ~~II,~~**(formerly** the Small Company Subtrust**)**, the International Small Company Subtrust II, **the Small Cap Value Subtrust (formerly** the 6-10 Value Subtrust**)**, the Large Cap Value Subtrust and **the Small XM Value Subtrust (formerly the** 4-10 Value Subtrust**)** shall be invested and reinvested primarily in any and all common stocks, preferred stocks, bonds, debentures, mortgages on real or personal property wherever situated, equipment or other trust certificates, notes or other evidences of indebtedness, or any other securities, certificates of deposit, demand or time deposits (including any such deposit with any bank or trust company serving as Trustee), shares of investment companies and mutual funds (including investment companies and mutual funds from which the Trustee, its parent, or affiliate serve as advisor or subadvisor), interests in partnerships and trusts, insurance policies and contracts, and in other property or joint or other part interest in property (including without limitation, part interests in bonds and mortgages or notes and mortgages), real or personal, foreign (including non-United States) or domestic and of any kind, class or character; such investment and reinvestment shall not be restricted to property authorized for investment by trustees under any present or future law. Such investment and reinvestment is authorized whether or not the property acquired is productive of income, is marketable, or constitutes a wasting asset; provided, however, that nothing herein contained shall be deemed to purport to authorize any investment or reinvestment in violation of the requirements of ERISA.

Schedule A to DFA Group Trust
Investment Guidelines Applicable to Certain Subtrusts

The Subtrusts identified below shall be invested as directed by DFA in accordance with the Investment Guidelines set forth on this Schedule A and the provisions of the DFA Group Trust Agreement. The effective date of this Schedule A is February 1, 2001.

The Investment Guidelines set forth on this Schedule A may be modified, in whole or in part, with respect to one or more of such Subtrusts as DFA may from time to time determine, without any further amendment to the Trust Agreement or being deemed for any purpose to constitute an amendment of the Trust Agreement. Any modification shall be effective as of the date set forth on a revised Schedule A prepared by DFA and provided to the Trustee and to each Participating Trust with assets invested in any Subtrust to which the modified Investment Guidelines are applicable. The revised Schedule A shall be provided to such ParticipatingTrusts not less than 30 days prior to such effective date.

As used in this Schedule A Total Market Capitalization shall mean the market capitalization of all American operating companies listed on the NYSE, AMEX or NASDAQ.

I. The Small XM Subtrust, formerly the 6-7-8 Subtrust, will invest primarily in a broad and diverse group of the common stocks of companies traded on a principal U.S. exchange or on the over-the-counter market whose market capitalization is in the range of the smallest 5% to 8% by capitalization of Total Market Capitalization.

II. The Micro Cap Subtrust, formerly the Small Company Subtrust, will invest primarily in a broad and diverse group of the common stocks of small companies traded on a U.S. principal exchange or on the over-the-counter market whose market capitalization is in the lowest 4% of Total Market Capitalization.

III. The Small Cap Subtrust, formerly the 6-10 Subtrust, will invest primarily in a broad and diverse group of the common stocks of small companies traded on a principal U.S. exchange or the over-the-counter market whose market capitalization is in the lowest 8% of Total Market Capitalization.

IV. The Small Cap Value Subtrust, formerly the 6-10 Value Subtrust, will invest primarily in a broad and diverse group of the common stocks of small companies traded on a principal U.S. exchange or on the over-the-counter market (A) whose market capitalization is in the lowest 8% of Total Market Capitalization and, (B) that DFA determines to be value stocks. The Investment Committee of DFA considers a variety of factors in determining whether the shares of a company are considered "value stocks" at the time of purchase. Securities are considered value stocks primarily because a company's shares have a high book to market ratio. In assessing value, the Investment Committee of DFA may consider additional factors such as price to cash flow or price to earnings ratios, as well as economic conditions and development in the issuer's industry. The Investment Committee will periodically review its standards for determining value and will adjust the standards accordingly.

V. The Large Cap Value Subtrust will invest primarily in a broad and diverse group of the common stocks of companies traded on a principal U.S. exchange or on the over-the-counter market (A) whose market capitalization is in the highest 90% of Total Market Capitalization and, (B) that DFA determines to be value stocks. The Investment Committee of DFA considers a variety of factors in determining whether the shares of a company are considered "value stocks" at the time of purchase. Securities are considered value stocks primarily because a company's shares have a high book to market ratio. In assessing value, the Investment Committee of DFA may consider additional factors such as price to cash flow or price to earnings ratios, as well as economic conditions and development in the issuer's industry. The Investment Committee will periodically review its standards for determining value and will adjust the standards accordingly.

VI. The Small XM Value Subtrust, formerly the 4-10 Value Subtrust, will invest primarily in a broad and diverse group of the common stocks of small companies traded on a principal U.S. exchange or on the over-the-counter market (A) whose market capitalization is in the range of the smallest 2.5% to 12.5% by capitalization of Total Market Capitalization and, (B) that DFA determines to be value stocks. The Investment Committee of DFA considers a variety of factors in determining whether the shares of a company are considered "value stocks" at the time of purchase. Securities are considered value stocks primarily because a company's shares have a high book to market ratio. In assessing value, the Investment Committee of DFA may consider additional factors such as price to cash flow or price to earnings ratios, as well as economic conditions and development in the issuer's industry. The Investment Committee will periodically review its standards for determining value and will adjust the standards accordingly.

The Total Market Capitalization ranges specified and the value determinations specified with respect to the Subtrusts identified above shall apply to the acquisition of securities for those Subtrusts but no obligation shall arise to direct that a security of a company held by a Subtrust be sold because the company is no longer within the Total Market Capitalization range or value determination of that Subtrust. DFA may in its discretion direct the sale of securities of a company with a market capitalization significantly in excess of the market capitalization range of the Subtrust in which it is held or a value significantly below the value determination of the Subtrust in which it is held. DFA shall have no obligation to direct the sale of securities of a company with a market capitalization significantly below the Total Market Capitalization range of the Subtrust in which it is held and such a security will not normally be sold even if the decline in the market capitalization reflects a serious financial difficulty or potential or actual insolvency of the company, provided, however, that with respect to the Large Cap Value Subtrust, DFA may in its discretion direct the sale of securities of a company with a market capitalization significantly below the Total Market Capitalization range of the Large Cap Value Subtrust. DFA may in its absolute discretion direct the sale of any security at any time when, in DFA's judgment, circumstances warrant its sale, including without limitation circumstances involving tender offers, mergers and similar transactions, and in response to bids made for blocks at opportune prices. However, the primary objective of each Subtrust shall be the long-term investment in each security acquired and DFA will not normally direct the sale of a Security solely to realize short term gain or to avoid a potential loss.

EXHIBIT B-2

PUTNAM ADVISORY COMPANY, INC.
SPECIFIC INVESTMENT GUIDELINES FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
DOMESTIC SMALL CAP VALUE PORTFOLIO
September 1998

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objectives: To achieve superior long-term performance while maintaining a risk profile commensurate with a typical value-oriented small market capitalization equity portfolio.

4. Performance Benchmarks:

   A. Passive Index: Russell 2000 Index, plus 2.0%.

   B. Manager Universe: Top 4 deciles of the Callan database of all equity managers and of managers investing in a similar style.

   C. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested in only common stocks and cash equivalents. Cash equivalents will not exceed 10% of the portfolio on a market value basis.

   B. At the time of purchase, no more than 3% of the portfolio, on a market value basis, will be invested in any single security and that subsequent to purchase no single security will constitute more than 5% of the portfolio.

   C. Stocks held in the portfolio will primarily be of quality, fundamentally strong companies. No purchase of investment letter stock or non-marketable securities shall be made without approval by the San Diego City Employees' Retirement System.

   D. The portfolio is expected to have a weighted mean capitalization no greater than that of the largest component of the second decile of the Russell 2000 Stock Index and no more than 40% of the portfolio will be invested in stock with market capitalizations greater than that component measured at the time securities are purchased.

Putnam Investments
Domestic Equity Small Cap Value
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E. Foreign securities will not be purchased except for those listed on U.S. exchanges or traded as NASDAQ securities.

F. Portfolio turnover is expected to average about 60% annually.

G. In general, Putnam will invest in the stocks of companies exhibiting the following characteristics:

- relatively low price/earnings ratio;
- adequate financial stability (i.e., no severe financial distress, no qualified financial statements, no default of debt covenants, no pending mergers, etc.);
- consistent dividend payouts and high dividend growth rate;
- earnings growth of greater than 7% over the previous 10 years; and
- significant management ownership.

6. Loss Taking: No restrictions.

7. Proxy-Voting:

SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Advisor shall provide the SDCERS Investment Analyst a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis should focus on the expected financial impact of the proposal on the company and SDCERS' equity position in the company. The analysis and vote recommendation shall be forwarded to the Investment Analyst of SDCERS in a timely manner, prior to the company's meeting date.

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revised: September 8, 1998

EXHIBIT "B"

RREEF REAL ESTATE SECURITIES ADVISERS L.P.
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
May 22, 2003

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To provide superior long-term returns with volatility comparable to the benchmark.

4. Performance Benchmarks:

   A. Passive Index: Wilshire REIT Index, plus 1.5%.

   B. Manager Universe: Top 4 deciles of the IPC database of all publicly traded real estate security managers of similar style.

   C. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested only in common stocks of Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOCs) and cash. Cash holdings will not exceed 15% of the portfolio. Cash holdings shall be invested in the custodial bank's Short Term Investment Fund (STIF) or the Short Term Extendable Portfolio (STEP).

   B. At the time of purchase, no more than 15% of the portfolio, on a market value basis, will be invested in REOC securities.

   C. At the time of purchase, no more than 15% of the portfolio, on a market value basis, will be invested in any single REIT or REOC security. Subsequent to purchase, no single security shall comprise more than 20% of the portfolio.

   D. The portfolio is expected to be moderately diversified across regions. The underlying real estate in a single

RREEF Real Estate Securites Advisors
Domestic Equity REITs
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city should not exceed 20% of the market value of the total portfolio.

E. The portfolio is expected to be moderately diversified across property types. Typically, the portfolio will have exposure to two to five securities providing exposure to each property sector.

F. On average, the portfolio will hold 25 to 35 securities.

G. Generally, the portfolio is expected to consist of securities with market capitalizations in excess of $100 million at the time of purchase.

H. Portfolio turnover is expected to be moderate, ranging from 25 to 65% annually. However, rotation between property sectors based upon changes in relative performance expectations may result in higher turnover.

I. In general, securities in the portfolio will be screened for one or more of the following characteristics:

- o Improving property level net operating income, cash flow, and capacity for sustained dividend increases over time.
- o Exposure to property markets rated as having favorable supply-demand characteristics and an outlook for economic growth.
- o Favorable valuations relative to their peer group.
- o Superior company business concept or niche and a focused investment strategy such as property type specialist expertise, property operating capabilities, and/or property redevelopment strategies.
- o Strong company management team with a history of successful entrepreneurship and the ability to manage an effective real estate operating company.

6. Loss Taking: No restrictions.

7. Proxy Voting:
SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers,

acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Advisor shall provide the SDCERS Investment Analyst a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis should focus on the expected financial impact of the proposal on the company and SDCERS's equity position in the company. The analysis and vote recommendation shall be forwarded to the Investment Analyst of SDCERS in a timely manner, prior to the company's meeting date.

EXHIBIT "C"

MCKINLEY CAPITAL MANAGEMENT INC.
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

February 2007

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active international equity management.

3. Objective: To achieve superior long-term performance while maintaining a risk profile commensurate with the MSCI All Country World Ex-U.S. Growth Net Dividends (ACWxUS Growth) benchmark

4. Performance Benchmarks:

A.	Passive Indices: (Net Dividends)	ACWxUS Growth plus 2% annualized, and ACWxUS plus 2% annualized.
B.	Tracking Error:	+/- 5% annualized to the ACWxUS Growth index, and +/- 7% to the ACWxUS.
C.	Manager Universe:	Top 4 deciles of international large cap growth managers.
D.	Measurement Period	3 to 5 years.

5. Guidelines:

A In general, the portfolio will be fully invested with residual cash at or below 5% of the portfolio. Investments in cash, cash equivalents, and money market instruments are restricted at the time of purchase to issues rated A1/P1 by Standard & Poor's or Moody's investment rating services or an equivalent rating as determined in the best judgment of the ADVISOR. The use of the custodian's Short Term Investment Fund (STIF) and Short Term Extendable Portfolio (STEP) are permitted.

B. ADVISOR will invest in marginable common stocks, preferred stocks, ADRs, and GDRs of companies domiciled in the countries included in the benchmark indices Investment in countries included in the indices but for which the custodian does not currently have custody capabilities must be approved in advance by SDCERS. The portfolio may also include up to 10% of the portfolio's market value in convertibles, rights, warrants or other equity equivalents.

C. As a risk control mechanism, country exposure is limited to the greater of 10% of the portfolio or 2-times the index weight.

D. The investment process seeks to identify stocks that have outperformed on a relative basis and exhibit strongly positive reward-to-risk characteristics with adequate liquidity and trading volume The portfolio will consist of inefficiently priced common stocks whose earning growth rates are accelerating above market expectations.

E. As a result of the portfolio construction process, the weighted average market capitalization of the portfolio will tend to be not less than 50% of the ACWxUS Growth benchmark.

F. The portfolio is expected to hold between 35 and 60 stocks at any given time Portfolio turnover is expected to range from 80% to 100% annually.

G. The maximum exposure to Emerging Market countries shall not exceed 30% of the market value of the portfolio.

H. No private placement (with the exception of equity linked warrants mentioned in Item B above) or venture capital investments will be included in the portfolio.

I. No use of leverage or derivatives will be permitted in the portfolio.

6. Currency, Foreign Exchange and Settlement of Trades:

A. Currency hedging is not permitted as a strategic activity. However, during regular trading activity, ADVISOR may enter into currency forward contracts.

B. Whenever possible, the simultaneous settlement of securities transactions should be versus payment in local currency. Securities shall not be held in street name unless the custodian, due to local market practice, is not able to register in the name of the beneficial owner.

7. Loss Taking: No restriction.

8. Proxy Voting: SDCERS will retain responsibility to vote all proxies. SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the

option of the investment manger who bought the stock must be obtained prior to the agent voting the proxy.

ADVISOR shall provide SDCERS staff a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis and recommendation should be forwarded to SDCERS staff upon request no later than one week prior to the company's meeting date.

9. Accounting: ADVISOR will use the same cost accounting method as the custodial bank (average cost basis).

10. SDCERS acknowledges that ADVISOR uses a multi-factor model in a quantitative process that undergoes constant review for possible enhancement or modification ADVISOR agrees that the investment process shall retain the same growth equity investment style and that enhancements or modifications shall be communicated to SDCERS prior to implementation.

EXHIBIT B

BRANDES INVESTMENT PARTNERS, L.P.
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
INTERNATIONAL EQUITY PORTFOLIO

December, 2007

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active equity management.

3. Objective: To achieve total returns superior to the benchmark with significantly less risk undertaken.

4. Performance Benchmarks:

   A. Passive Index:

      - MSCI All Country World ex U.S. Index, plus 2%

   B. Manager Universe: Top 4 deciles of the Callan database of all equity managers and of managers investing in a similar style.

   C. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested only in common stocks, preferred stocks, ADRs, 144 securities, and convertible securities of companies domiciled outside of the United States.

   B. The portfolio is expected to generally hold 40 to 75 stocks at any given time. Portfolio turnover is expected to range from 20% to 35% per year.

   C. At the time of purchase, the portfolio will not own more than 5% of the outstanding securities of any single entity. At the time of purchase, no more than 5% of the portfolio, on a market value basis, will be invested in any single security.

   D. The maximum exposure to emerging market countries shall not exceed 30% of the market value of the portfolio.

   E. The portfolio is expected to be diversified across industries. In general, no more than the greater of 20% of the portfolio or 150% of weighting in the Index should be invested in any one industry group at time of purchase.

F. The portfolio is expected to be diversified among countries. In general, no more than the greater of 30% of the portfolio or 150% of weighting in the Index should be invested in any one country at time of purchase.

G. Investment in countries included in the Index but for which the custodian does not have custody capabilities must be approved in advance by the Board.

H. Cash and cash equivalents will generally not exceed 5% of the portfolio on a market value basis. Investments in cash, cash equivalents, and money market instruments are restricted to issues rated A1/P1 at the time of purchase by Standard & Poor's of Moody's investment rating services or an equivalent rating as determined in the best judgment of the investment manager. The use of the custodian's Short Term Investment Fund (STIF) and Short Term Extendable Portfolio (STEP) are permitted.

I. Currency hedging is not permitted as a strategic activity. However, during regular trading activity advisor may enter into currency forward contracts.

J. Investment in physical commodities or physical commodity contracts is not permitted.

K. Short sales are not permitted.

L. In general, Brandes Investment Partners, L.P. will invest in common stocks from a universe of 10,000+ companies, which may have some of the following characteristics:

- Relatively low normalized price-to-cash-flow, price-to-book, price-to-earnings, enterprise-value-to-cash-flow, and debt-to-equity ratios.

- Attractive fundamental characteristics relative to price and potential for appreciation.

- Priced at a discount to Brandes' estimate of fair value.

6. <u>Loss Taking</u>: No restrictions.

7. <u>Foreign Exchange and Settlement of Trades</u>:

A. For all purchases and sales of securities and other transactions requiring the exchange of currencies, advisor shall obtain at least three (3) bids on the exchange rates and select the best bid, net of all fees, for each transaction. One of the bids must be from the custodian bank of SDCERS.

B. Whenever possible, the simultaneous settlement of securities transactions should be versus payment in local currency. Securities shall not be held in street name unless approved in advance by the Board.

8. Proxy Voting:

SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Upon request, advisor shall provide SDCERS staff a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis and recommendation should be forwarded to SDCERS staff no later than one week prior to the company's meeting date.

EXHIBIT B-2

GlobeFlex Capital, L.P
Specific Investment Guidelines for
San Diego City Employees' Retirement System

International Small Cap Equity

February 2007

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active international equity management.

3. Objective: To provide superior long-term returns in both growth and value markets with lower volatility than that of either style used independently, while maintaining a risk profile commensurate with the S&P/Citigroup Extended Market (EMI) World ex-U.S. Index.

4. Performance Benchmarks:

   A. Passive Index: S&P/Citigroup Extended Market World ex-U.S. Index, plus 2.5% annualized.

   B. Tracking Error: +/- 5% annualized to the S&P/Citigroup EMI index.

   C. Manager Universe: Top 4 deciles of international small cap equity managers.

   D. Measurement period: 3 to 5 years minimum.

5. Guidelines:

   A. In general, the portfolio will be fully invested with residual cash at or below 5% of the portfolio. Investments in cash, cash equivalents, and money market instruments are restricted at the time of purchase to issues rated A1/P1 by Standard & Poor's or Moody's investment rating services or an equivalent rating as determined in the best judgment of the ADVISOR. The use of the custodian's Short Term Investment Fund (STIF) and Short Term Extendable Portfolio (STEP) are permitted.

   B. The portfolio will invest in the publicly traded equities of non-U.S. corporations registered in countries represented in the S&P/Citigroup Extended Market Index ex U.S. No single portfolio country weight may account for more than plus/minus 3% of the EMI ex U.S benchmark weight; and, no single portfolio sector weight may account for more than plus/minus 7% of the EMI ex U.S. benchmark weight. Investment in countries included in the indices but for which the custodian does not currently have custody capabilities must be approved in advance by SDCERS

C. On average, the portfolio is expected to hold between 125 and 175 stocks. At the time of initial purchase, individual holdings are expected to be on average equal weighted and diversified across countries and sectors.

D. The portfolio is expected to consist of stocks with market capitalization generally ranging from $75 million to $5 Billion at the time of purchase with an average portfolio capitalization ranging from $1.5 Billion to $3.0 Billion over time

E. The portfolio will generally not hold more than 5% of the outstanding shares of any single company.

F. Average annual portfolio turnover is expected to be approximately 85%

G. In general, the portfolio's holdings will be financially sound companies.

H. In general, stocks in the portfolio will be evaluated for the following characteristics:

- Long-term earnings growth potential based upon historic and expected earnings.
- Low price-to-free-cash-flow ratio
- Rising investor expectations of earnings accompanied by corresponding market action

I No emerging market countries will be included in the portfolio, as defined by the S&P/Citigroup EMI ex-U.S.

J No private placement or venture capital investments will be included in the portfolio.

K. No use of leverage or derivatives will be permitted in the portfolio.

6. <u>Currency, Foreign Exchange and Settlement of Trades</u>:

A. Currency hedging is not permitted as a strategic activity However, during regular trading activity, ADVISOR may enter into currency forward contracts.

B. For all purchases and sales of securities and other transactions requiring the exchange of currencies, ADVISOR shall obtain a competitive bid from the custodian bank for SDCERS.

C. Whenever possible, the simultaneous settlement of securities transactions should be versus payment in local currency. Securities shall not be held in street name unless approved in advance by SDCERS.

7. Loss Taking: No restrictions.

8. Proxy Voting: SDCERS will retain responsibility to vote all proxies. SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the option of the investment manger who bought the stock must be obtained prior to the agent voting the proxy.

   ADVISOR shall provide SDCERS staff a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis and recommendation should be forwarded to SDCERS staff no later than one week prior to the company's meeting date.

9. Accounting: ADVISOR will use the same cost accounting method as the custodial bank (average cost basis).

EXHIBIT "B"

NICHOLAS-APPLEGATE CAPITAL MANAGEMENT
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

December 2007

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active convertible securities management.

3. Objective: To deliver outstanding risk-adjusted returns by being fully invested in convertible securities of predominantly small and mid cap companies.

4. Performance Benchmarks:

   A. Passive Index: Merrill Lynch All Convertibles Index, plus 2%.

   B. Expected Tracking Error: +/- 8% annualized to the index.

   C. Manager Universe: Top 4 deciles of Callan database of all bond managers and of managers with similar style.

   D. Measurement Period: 3 to 5 years minimum.

5. Guidelines:

   A. The portfolio will be invested only in convertible bonds, convertible preferred stocks, common stocks, straight debt and synthetic convertibles.

   B. On average, the portfolio is expected to hold between 50 and 70 issues. At the time of initial purchase, individual holdings are expected to be equally weighted and diversified across industries.

   C. The portfolio is expected to consist of securities of companies with market capitalizations averaging between $2 billion and $15 billion.

   D. The portfolio will not hold more than 5% of the outstanding issues of any single company.

E. Average annual portfolio turnover is expected to be approximately 100% to 110%.

F. In general, the overall portfolio will maintain an average Standard & Poor's quality rating of at least BB+.

G. In general, convertible securities in the portfolio will be evaluated for the following characteristics:

- Issuing company must meet equity buy criteria.
- Low conversion premium.
- High yield or coupon.
- Low break-even period.
- Acceptable call protection.

6. Loss Taking: No restrictions.

7. Proxy Voting:

SDCERS has designated a proxy voting agent to vote proxies in accordance with the SDCERS Proxy Voting Guidelines. These guidelines state that for proxy issues involving mergers, acquisitions, reorganizations, and restructurings, the opinion of the investment manager who bought the stock must be obtained prior to the agent voting the proxy.

Upon request, advisor shall provide the SDCERS Investment Analyst a written analysis and vote recommendation on all proxy proposals of mergers, acquisitions, reorganizations, and restructurings for companies whose stocks are held in the portfolio. The analysis should focus on the expected financial impact of the proposal on the company and SDCERS's equity position in the company. The analysis and vote recommendation shall be forwarded to the Investment Analyst of SDCERS in a timely manner, prior the company's meeting date.

EXHIBIT "E"

GRANTHAM, MAYO, VAN OTTERLOO & CO. LLC

SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

July 2002

1. Type of Assets: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: International Small Cap Value

3. Objective: To achieve superior long-term performance while maintaining a risk profile commensurate with an international small capitalization equity portfolio.

4. Performance Benchmarks:

A.	Passive Indexes:	S.S.B.- EMI World Ex-U.S., plus 3.0%.
B.	Manager Universe:	Top 4 deciles of Callan database of all equity managers and of managers with similar style.
C.	Measurement Period:	3 to 5 years minimum.

5. Guidelines: The FUND typically makes equity investments (via publicly traded securities) in smaller companies located or doing business outside of the U.S.

6. Loss Taking: No restriction.

7. Proxy Voting: GRANTHAM, MAYO, VAN OTTERLOO & CO. LLC will retain responsibility to vote all proxies pursuant to terms and conditions of the GMO Trust and GMO's Proxy Voting policies, a current copy of which is attached hereto.

8. Soft Dollars and Directed Brokerage:

As of July 2002, the FUND does not engage in any soft dollar arrangements. In addition, because SDCERS is an investor in the FUND, directed brokerage does not apply.

GMO & Company, LLC
International Equity Small Cap Value
N-2d

EXHIBIT "B"

METROPOLITAN WEST ASSET MANAGEMENT LLC
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
CORE PLUS FIXED INCOME PORTFOLIO
January 2008

I. Type of Fund: Tax-exempt, defined benefit public pension plan.

II. Type of Portfolio Management: Active bond management.

II. Objective: High total return.

III. Performance Benchmarks:

A. Passive Indexes: Domestic - Lehman Brothers Aggregate Bond Index, plus 1%.

B. Expected Tracking Error: +/- 1.875% annualized to the index.

C. Manager Universe: Top 4 deciles of Callan database of all fixed income managers and managers of similar style.

D. Measurement Period: 3 to 5 years minimum.

IV. Fixed Income Duration Guidelines:

A. Average Portfolio Duration: Benchmark index, +/- one year.

B. Individual security maturities and durations are the discretion of the manager.

V. Permissible Assets (U.S. Dollar-Denominated Only) – Subject to Concentration Guidelines specified in Section VII

A. Fixed Income Securities
1. U.S. Government and Agency Securities, including but not limited to:
   a. U.S. Treasury Notes and Bonds
   b. U.S. Treasury Inflation-Protected Securities (TIPS)
   c. STRIPS (Zero Coupon Issues)
   d. Agency Debentures
      i) Government-Guaranteed
      ii) Government-Sponsored Enterprises (GSEs)

2. Corporate Securities, including but not limited to:
   a. Debentures
   b. Medium-Term Notes
   c. Capital Securities
   d. Trust Preferred Securities
   e. Yankee Bonds
   f. Eurodollar Securities

g. Floating Rate Notes and Perpetual Floaters
h. Structured Notes (with fixed income characteristics)
i. Private Placements
   i) Bank Loans
   ii) 144(a) Securities

3. Structured Securities, including but not limited to:
   a. Agency and Non-Agency Mortgage-Backed Securities (MBS)
      i) Pass-Through Securities
      ii) Collateralized Mortgage Obligations
      iii) Stripped MBS
         - Interest Only Strips (IOs)
         - Principal Only Strips (POs)
      iv) Floating Rate Notes
      v) Inverse Floaters
      vi) 144(a) Securities
   b. Asset-Backed Securities (ABS)
         - 144(a) Securities
   c. Commercial Mortgage-Backed Securities (CMBS)

B. Other Interest-Bearing Securities
1. Municipal Bonds
2. Preferred Stock
   a. Adjustable Rate
   b. Convertible

C. Short-Term Investments
1. Cash
2. U.S. Treasury Bills
3. Agency Discount Notes
4. Certificates of Deposit (CDs) and Bankers' Acceptances (BAs)
5. Commercial Paper – Minimum Quality of A1/P1
6. Asset-Backed Commercial Paper – Minimum Quality of A1/P1
7. Money Market Funds and Bank Short-Term Investment Funds (STIF)
8. Repurchase Agreements (Repo)

D. Other
1. Fixed Income Commingled and Mutual Funds (as approved)
2. Futures and Options
3. Swap Agreements
4. Reverse Repurchase Agreements (Reverse Repo)

VI. Fixed Income Credit Quality Guidelines:

Minimum Average Quality:	A* rating
Minimum Quality (at purchase):	80% Baa** or above
	20% B** or above

* Market-weighted portfolio average
** Rating required by one nationally recognized statistical rating organization (NRSRO) or equivalent determination of MWAM

MWAM will maintain discretion to hold securities in the event of a downgrade by any of the national rating agencies, subject to the following requirement:

Any holding for which the applicable credit rating falls below the minimum required for purchase will call for written notification by MWAM with a description of the ongoing investment strategy for the position.

VII. Concentration Guidelines:

Issue (by CUSIP) – Maximum 2.5% of portfolio market value.
Issuer (By Ticker) – Maximum 2.5% of portfolio market value.
Issue/Issuer maximum does not apply to U.S. Treasury issues.

Bank Loans – Maximum 5% of portfolio market value.

IOs – Maximum 5% of portfolio market value.
POs – Maximum 5% of portfolio market value.
Inverse Floaters – Maximum 5% of portfolio market value.

Approved commingled/mutual funds are subject to prospectus guidelines.

VIII. Loss Taking: No restrictions.

IX. Leverage: No margin purchases or leverage permitted. Leverage is defined as any derivative exposure, e.g., futures, options, or swaps, not durationally offset by a matching transaction or not backed by cash equivalents or any transaction (purchase or sale) which results in the average portfolio duration mismatching the portfolio benchmark by more than 1 year in duration.

X. Accounting: ADVISOR will use the same cost accounting method as the custodial bank (average cost basis).

XI. Qualified Institutional Buyer ("QIB") Status

SDCERS confirms that it is a QIB with assets in excess of $100 million and that the investment in 144a Securities is permissible.

EXHIBIT "B"

PACIFIC INVESTMENT MANAGEMENT COMPANY
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
January 1, 2006

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active bond management.

3. Objective: High total return.

4. Performance Benchmarks:

   A. Passive Indexes: Domestic Benchmark - Lehman Aggregate Bond Index, plus 1%.
   Blended Benchmark – 79% Lehman Aggregate and 21% JP Morgan Non-U.S. hedged, plus 1%.

   B. Tracking Error: +/- 1.25% annualized to the Index.

   C. Manager Universe: Top 4 deciles of Callan database of all fixed income managers and of managers with similar style.

   D. Measurement Period: 3 to 5 years minimum.

5. <u>Duration Guidelines</u>:

   Portfolio Average Duration will be within a range of the Benchmark's duration +/- 2 years.

6. <u>Asset-Type Guidelines</u>:

   Complete manager discretion as to portfolio mix using any of the investment vehicles listed below:

   A. Fixed Income Securities (including "stripped" issues):
      1. U.S. Treasuries and Agencies.
      2. U.S. corporate securities.
      3. Private placement securities (including 144As, 4(2) Commercial Paper and Bank Loans).
      4. U.S. traditional preferred and adjustable rate preferreds.
      5. Mortgage pass-through securities (GNMA, FNMA, FHLMC, savings and loans, and

banks), and collateralized mortgage obligations.

6. Eurodollar securities of U.S. issuers.
7. Foreign Government and Supra-National Agencies.
8. Emerging Market investments:
   - Shall be limited to countries contained in the J.P. Morgan EMBI Global and EMLI+ Indices.
   - Shall have minimum quality of B-.
   - Instruments rated below BB- cannot exceed 20% of the Emerging Market allocation in the portfolio.
   - Unrated securities by any of the rating agencies shall not exceed 20% of the Emerging Market allocation in the portfolio.
   - Maximum exposure to any country rated investment grade is 5% and 3% for countries rated below BBB-.
   - Holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at reasonable cost and accurate market valuations.

B. Short-term Instruments:

1. U.S. Treasury and Agency instruments.
2. Certificates of deposit and bankers acceptances of U.S. banks.
3. Repurchase and reverse repurchase agreements.
4. Eurodollar CD's, TD's, and commercial paper.
5. U.S. and Eurodollar floating rate notes and CD's.
6. U.S. money market funds and bank STIFS.
7. Foreign Government and Supra-National Agencies.

C. Financial Futures and Options:

- Futures Contracts on interest rate and foreign currency related instruments, such as:
  1. U.S. Treasury securities.
  2. GNMA's.
  3. CD's.
  4. Euro TD's.
  5. Muni Bond Index.
  6. Corporate Bond Index.
  7. Foreign Government and Supra-National securities.

- Options on interest rate and foreign currency related instruments, such as those listed above.

- Interest rate and currency swaps.
- Credit Default Swaps, both long and short.

D. Commingled Fund Pools:

PIMCO International Fund, PIMCO High Yield Fund and PIMCO Emerging Market Funds provided that SDCERS' participation in any PIMCO fund does not exceed 20% of the market value of that fund.

7. Credit Quality Guidelines:

Minimum Average Portfolio Quality: A Rating (market value weighted).

Minimum Quality at Purchase: Ba/BB or equivalent rating by at least one of the major rating services, i.e., Moody's, S&P, Fitch.

8. Liquidity Restrictions: None.

9. Concentration Guidelines:

	Maximum (except U.S. Treasury/Agency O.E.C.D. Government Issues)
Issue	3% of portfolio
Issuer	5% of portfolio
Foreign Investments	30% of portfolio
Emerging Market Exposure (U.S. dollar)	10% of portfolio
Foreign Currency Exposure	25% of non-U.S. dollar investments

10. Loss Taking: No restriction.

11. Accounting: ADVISOR will use the same cost accounting method as the custodial bank (average cost basis).

Approved By: Douglas B McCalla 12/28/05
SDCERS

S H Ward 12/28/05
PIMCO

File name: w:\invest\Guidelines & Fees (Mgrs)\PIMCOGL10 Approved Jan 1 2006.doc

PIMCO
Domestic Fixed Income Core Plus Bond
N-3c

EXHIBIT "C"

SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

December 2002

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active Market Neutral equity management.

3. Objective: To outperform 90-day U.S T-bills by 300 basis points annually, net of all fees and commissions while maintaining an annualized standard deviation of 4-6% over time. The portfolio will purchase equity securities deemed by the Investment Manager to be attractive while simultaneously selling short an equally valued portfolio of the equity securities deemed by the Investment Manager to be unattractive. Since both beta and value are matched between the two portfolios, the net position will have limited exposure to equities, hence it is market-neutral.

4. Performance Benchmarks

   A. Passive Indexes: Primary - 90-day U.S. T-bills, plus 3%; Secondary - Merrill 1-5 yr. Govt./Corp.

   B. Measurement Period: 3 to 5 years.

   C. Peer Group: Top 4 deciles of Callan Database of market neutral managers.

5. Guidelines

   A. The portfolio will be invested in small, mid and large cap stocks. At the same time stocks are purchased, approximately an equal dollar amount (subject to volatility and other portfolio balancing considerations) of stocks will be sold short. The long positions will serve as collateral for the short positions. The cash proceeds from the short sales will be deposited with a broker and earn interest calculated at the effective federal funds rate minus a stock-lending fee.

   B. Approximately two to ten percent of the portfolio will be reserved in cash and cash equivalents as a liquidity buffer for purposes of meeting daily "marks to market" on the short positions.

   C. At the time of purchase, no more than 3% of the portfolio, on a market value basis, will be invested in any single security and that subsequent to purchase no single security will constitute more than 5% of the portfolio. It is expected that the portfolio will be invested in about 125-200 long and 125-200 short positions at any time.

D. Stocks held in the long portfolio will primarily be of quality, fundamentally strong companies. No purchase of investment letter stock, initial public offerings, or non-marketable securities (SEC Rule 144A) shall be made without approval by the San Diego City Employees' Retirement System.

E. Foreign securities will not be purchased except for ADR's, and those foreign securities listed on U.S. exchanges or traded as NASDAQ securities in U.S. Dollars.

F. Investment Strategy:

Investment Manager buys stocks highly recommended by Fidelity analysts.

Investment Manager sells short those stocks which Fidelity analysts recommend be sold.

Market values and beta of long and short positions are matched closely to provide diversified portfolios with little or no equity exposure.

Risk control techniques assure that stock selection is a primary contributor to active risk.

6. <u>Loss Taking</u>: No restriction.

7. <u>Proxy Voting</u>: SDCERS will retain responsibility to vote all proxies.

EXHIBIT "C"

SALUS CAPITAL MANAGEMENT, INC.
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

March 1998

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active Market Neutral equity management.

3. Objective: To outperform short-term US Treasuries (1-3 Years) by 300 basis points annually, net of all fees and commissions while maintaining an annualized standard deviation within 1-2% of the annualized standard deviation of short-term US Treasuries. To reduce or eliminate risk inherent in the equity market (systematic risk) while at the same time capturing the ability of individual stock positions to either outperform (long positions) or underperform (short positions) the overall market.

4. Performance Benchmarks:

   A. Passive Index: Merrill Lynch 1-5 Year Government/ Corporate Bond Index plus 3.0%

   B. Manager Universe: Top 4 deciles of Callan database of defensive fixed income managers.

   C. Measurement Period: 3 to 5 years.

5. Guidelines:

   A. The portfolio will be invested in mid to large cap domestic common stocks. At the same time stocks are purchased, approximately an equal dollar amount (subject to volatility and other portfolio balancing considerations) of stocks will be sold short. The long positions will serve as collateral for the short positions. The cash proceeds from the short sale will be deposited with a broker and earn interest calculated at the Federal Funds rate minus a short rebate of approximately 0.50%. Two percent of the portfolio will be reserved, at all times, and held in cash and cash equivalents as a liquidity buffer for purposes of meeting

Salus Capital Management
Domestic Fixed Income Market Neutral
N-3e

daily "marks to market" on the short positions.

B. At the time of purchase, no more than 3% of the portfolio, on a market value basis, will be invested in any single security and that subsequent to purchase no single security will constitute more than 5% of the portfolio. It is expected that the portfolio will be invested in about 80 long and 80 short positions at any time.

C. Stocks held in the portfolio will primarily be of quality, fundamentally strong companies. No purchase of investment letter stock, initial purchase offerings, or non-marketable securities shall be made without approval by the San Diego City Employees' Retirement System.

D. The portfolio is expected to have a median market capitalization of approximately $8 billion and a weighted average market capitalization of approximately $12 billion, as of March, 1998.

E. Foreign securities will not be purchased except for Canadian shares, ADR's, and those listed on U.S. exchanges or traded as NASDAQ securities.

F. Portfolio turnover in any given year is expected to be about 300% annually.

G. In general, Salus will invest within a large universe of stocks screened for the following characteristics:

- a minimum market capitalization of $150 million
- an average daily trading volume of 50,000 shares
- companies with 5 years continuous business operations
- a minimum $5 per share price
- emphasis on value characteristics: price-to-earnings, price-to-book, price-to-cash flow and price-to-yield ratios.

6. Loss Taking: No restriction.

7. Proxy Voting: SDCERS will retain responsibility to vote all proxies.

Dated March 6, 1998

EXHIBIT "C"

SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

December 2001

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active Market Neutral equity management.

3. Objective: To outperform 90-day U.S. T-bills by 400 bps basis points annually, net of all fees and commissions while maintaining an annualized standard deviation of 6.5% over time. To reduce or eliminate risk inherent in the equity market (systematic risk) while at the same time capturing the ability of individual stock positions to either outperform (long positions) or underperform (short positions) the overall market.

4. Performance Benchmarks:

   A. Passive Index: 90-day U.S. T-bills plus 4%

   B. Manager Universe: Top 4 deciles of Callan database of defensive fixed income managers.

   C. Measurement Period: 3 to 5 years.

   D. Benchmark Modification: From time to time, at SDCERS direction, ADVISOR agrees to equitize cash proceeds using futures contracts of an index (or indices) as selected by SDCERS. During the period in which cash is equitized, the performance benchmark may be revised (blended) to reflect the increased equity for fixed income duration exposure.

5. Guidelines:

   A. The portfolio will be invested in small, mid and large cap domestic common stocks. At the same time stocks are purchased, approximately an equal dollar amount (subject to volatility and other portfolio balancing considerations) of stocks will be sold short. The long positions will serve as collateral for the short positions. The cash proceeds from the short sale will be deposited with a broker and earn interest calculated at the opening federal funds rate minus a short rebate of approximately .25%. Two percent of the portfolio will be reserved, at all times, and held in cash and cash equivalents as a liquidity buffer for purposes of meeting daily "marks to market" on the short positions.

B. At the time of purchase, no more than 3% of the portfolio, on a market value basis, will be invested in any single security and that subsequent to purchase no single security will constitute more than 5% of the portfolio. It is expected that the portfolio will be invested in about 150 - 200 long and 150 200 short positions at any time.

C. Stocks held in the portfolio will primarily be of quality, fundamentally strong companies. No purchase of investment letter stock, initial purchase offerings, or non-marketable securities shall be made without approval by the San Diego City Employees' Retirement System.

D. The portfolio is expected to have a median market capitalization of approximately $2-5 billion and a weighted average market capitalization of approximately $10 billion, as of November, 2001.

E. Foreign securities will not be purchased except for Canadian shares, ADR's, and those listed on U.S. exchanges or traded as NASDAQ securities.

F. Portfolio turnover in any given year is expected to be about 300-400% annually each side.

G. In general, SSI will invest within a large universe of stocks screened for the following characteristics:

- a minimum market capitalization of $200 million
- an average daily trading volume of 2,000,000 shares
- companies with 3 years continuous business operations
- a minimum $8.00 per share price
- emphasis on relative strength, P/E, dividend, earnings, insider trading, price-to-private market value, stock price over reaction characteristics: [price-to-earnings, price-to-book, price-to-cash flow and price-to-yield ratios.]

6. Loss Taking: No restriction.

7. Proxy Voting: SDCERS will retain responsibility to vote all proxies.

EXHIBIT C

ROGGE GLOBAL PARTNERS, plc
SPECIFIC INVESTMENT GUIDELINES
FOR
SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
NON-US FIXED INCOME PORTFOLIO

(Effective May 2008)

1. Type of Fund: Tax-exempt, defined benefit retirement plan.

2. Type of Portfolio Management: Active non-US fixed income management.

3. Objective: To achieve bond and currencies returns superior to the benchmark with controlled risk.

4. Performance Benchmarks:

   A. Passive Index: Citi World Government Bond Index ex-US, plus 1.0% (gross of management fees).
   B. Tracking error will be a maximum of 4% annualized vs. the stated passive index.
   C. Manager Universe: Above median in Callan's Non-US Fixed Income Style Group.
   D. Measurement Period: 3 to 5 years minimum.

5. Eligible Investments:

   A. Developed Markets:
   Sovereign and supranationals, Eurodollar bonds, corporates and mortgages of companies or governmental agencies located in developed countries.

   B. Emerging Market investments:
   Emerging Market investments are defined as sovereign and corporate debt in countries outside the stated index. Advisor

may invest in both dollar and non-dollar (local currency) denominated instruments.

C. Derivatives:
Interest rate futures, options and swaptions on eligible instruments, interest rate and currency swaps, FX forwards and spot transactions. Covered put and call options may be written against bonds and currencies to generate additional income.

6. <u>Concentration Limits:</u>

A. In the developed market component, no more than 20% of the portfolio, on a market value basis, will be invested in any single sovereign issue.
B. Maximum amount to any non-sovereign issuer (excluding AAA agencies and supranationals) will be 3%.
C. Emerging Markets: limited to a maximum of 30% of the market value of the portfolio.
D. Maximum exposure to any single emerging country rated investment grade by at least one major rating agency is 5%; and, is 3% for those rated below BBB- (or equivalent).

7. <u>Credit Quality:</u>

A. Average credit quality for the total portfolio will be A, or better.
B. Securities rated lower than investment grade are limited to 10% of the total portfolio.
C. Minimum credit quality for emerging market securities is B- (or the equivalent) by at least one major rating agency. The minimum, credit rating for emerging markets corporates is BBB-.
D. Emerging market securities not rated by a major rating agency will be limited to 5% of the total emerging market exposure.

8. <u>Duration:</u> Duration should be within +/- 2 years of the index.

9. <u>Investment Restrictions:</u>

   A. Investment in physical commodities or physical commodity contracts is not permitted.
   B. Short sales and leverage are not permitted.

10. <u>Securities selection will result from an analysis of the following factors:</u>

   A. Country selection - the portfolio will be concentrated in a relatively small number of markets which are expected to outperform the index.
   B. Currency selection - selected hedges will be applied in order to manage volatility in currency movements away from the expected trend.
   C. Term structure - in general, the portfolio will be invested in the medium-to-long end of the market.
   D. Sector/Security Selection - issues will be evaluated for liquidity and credit quality.

11. <u>Loss Taking:</u> No restrictions.

12. <u>Foreign Exchange and Settlement of Trades:</u>

   A. For all purchases and sales of securities and other transactions requiring the exchange of currencies, advisor shall obtain at least two (2) bids on the exchange rates and select the best bid, net of all fees, for each transaction.
   B. Whenever possible, the simultaneous settlement of securities transactions should be versus payment in local currency. Securities shall not be held in street name unless approved in advance by the Board.

Amended April 18, 2008

San Diego City
Employees' Retirement System

Strategic Plan
Objectives, Policies and Procedures

September 21, 2007

The Townsend Group
Institutional Real Estate Consultants
Cleveland, Ohio   San Francisco, CA   Denver, CO

Supplemental Policy
Real Estate Strategic Plan

TABLE OF CONTENTS

I. INTRODUCTION

The San Diego City Employees’ Retirement System (the "Retirement System" or “SDCERS”) has determined that, over the long term, inclusion of equity real estate investments will enhance the risk/return characteristics of the Retirement System's portfolio investment.

This document establishes the specific objectives, policies and procedures involved in the implementation and oversight of the Retirement System’s real estate program. The objectives define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

II. INVESTMENT OBJECTIVES

A. Asset Allocation

SDCERS has approved a long-term asset allocation target of eleven percent (11%) for investment in equity real estate investments.

B. Return Objectives

During the last twenty years, real estate has been an asset class that institutional investors typically include in their investment asset mix. The Board of San Diego City Employees’ Retirement System (“Board”) has determined that the objective of the Retirement System’s real estate portfolio will be to provide returns superior to passive management strategies. Active management, value creation strategies and the prudent use of third party debt are approved methods for generating the expected excess return. The Board has approved a target return for the real estate portfolio of a net return equal to the NCREIF Property Index (“NPI”) plus 250 basis points (or NPI plus 2.5%). A secondary objective for the asset class will be to improve the diversification of the overall investment portfolio. Shorter term performance and risk assessment will utilize a risk adjusted benchmark using return expectations by style in a customized, weighted benchmark to reflect the actual composition of the portfolio and expected return of the same.

III. INVESTMENT POLICIES

A. Portfolio Composition

The System divides the range of available real estate investment strategies ('styles') into three primary categories: (1) Stable, (2) Enhanced, and (3) High Return. The style groups are defined by their respective market risk/return characteristics:

Stable Characteristics

- Operating and substantially leased properties (80%);
- Property types include office, apartment, retail, industrial;
- Total return is primarily attributable to income ($\geq$ 65%).

Enhanced Characteristics

- Properties requiring lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments;
- No property types are excluded.
- Total return is attributable to a balance between income and appreciation.

High Return Characteristics

- Properties or real estate companies offering recapitalization, turnaround, development, market arbitrage opportunities investments;
- No property types are excluded.
- Total return is primarily attributable to appreciation and generally recognized upon sale of the asset.

With respect to the three style groups, the Board has established the following portfolio composition target:

Style	Range of Expected Gross Returns
Minimum 30% Stable	Gross NPI + 25 bps
Maximum 70%	
Enhanced	Gross NPI + 225 bps
High Return	Gross NPI + 575 bps

B. Risk Management

The primary risks associated with equity real estate investments are investment manager risk, property market risk, asset and portfolio management risk, loss of principal and liquidity risks. The Retirement System will mitigate risk in a prudent manner. The following policies have been established to manage the risks involved in investing in real estate equity.

1. Defined Roles for Participants

The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Investment Committee, Staff, Real Estate Consultant ("Consultant") and Investment Managers ("Manager" or "Managers"). Set forth below is the delegation of the major responsibilities of each participant.

Duties of the SDCERS Board

- Establishes the role of the real estate investment program in light of the total portfolio objectives.
- Approves the allocation to real estate and approves any adjustments to the allocation which may be necessary from time to time.
- Approves the Strategic Plan (Objectives, Policies and Procedures) and the Investment Plan for the real estate program.
- Approves Investment Committee recommendations for selection, retention and removal of Managers and selection and management of investments.
- Reviews the real estate portfolio on a quarterly basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.

Duties of the Investment Committee or the Full Board in the absence of an Investment Committee

- Reviews the Strategic Plan (Objectives, Policies and Procedures) and the Investment Plan for the real estate program. Presents and recommends the Plans to the Board for approval.
- Reviews and approves Requests for Information as developed by Staff and Consultant to be used in Individually Managed Account ("IMA") manager selection.
- Interviews Managers, Investment Partners or Ventures, and Commingled Fund Sponsors and recommends selections to the Board for approval.
- Reviews Staff and Consultant recommendations for removal of Managers and recommends termination to the Board for approval.

Duties of the SDCERS Staff

- Reports to the Investment Committee and Board on matters of policy.
- Oversees Consultant's preparation of the Strategic Plan and Investment Plan.
- Participates with the Consultant in the Annual Real Estate Portfolio Review, including Budget and Management Plans and Manager Investment Plans. Reports completion to the Investment Committee.
- Brings any non-conforming items or significant issues to the attention of the Investment Committee.
- Documents and monitors funding procedures.
- Completes any other activity as directed by the Committee and/or Board.

Individually Managed Account ("IMA") Duties:

- Conducts searches for professional services and investment managers and, with the assistance of the Consultant, recommends finalists to the Investment Committee and Board for approval.
- Oversees preparation of annual Manager Investment Plans and reports completion to the Investment Committee.
- Reviews the Budget and Management Plans prepared by IMA Managers and reports completion to the Investment Committee.

- Reviews Preliminary Investment Packages and compliance analysis prepared by IMA Managers and submits the results to the Investment Committee.
- Reviews fees for compliance and insures that Incentive Fees are processed appropriately.
- Performs other duties required to execute the IMA Investment Procedures.
- Monitors the closing process, and with legal counsel, reviews and executes any required documentation for acquisitions, refinancings and other capital transactions between IMA Managers and the Retirement System.

Commingled Fund ("CF") Duties

- With the assistance of the Consultant, conducts screening, review, and selection for recommendation of CF offerings.
- Oversees the commitment process, and with legal counsel, reviews and executes any required documentation.

<u>Duties of the Consultant</u>

- Reports directly to the Board, Investment Committee and Staff on matters of policy.
- Brings any non-conforming items or significant issues to the attention of the Staff and/or Board.
- Monitors the performance of the real estate portfolio and compliance with approved policy.
- Prepares the Strategic Plan and Real Estate Investment Plan and, in conjunction with Staff, presents the Plans to the Investment Committee for review.
- Prepares a quarterly Performance Measurement Report (PMR) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans. Presents portfolio PMR to the Investment Committee quarterly.
- Assists Staff in the Annual Real Estate Portfolio Review.
- Provides Staff and/or Board with topical research and education on investment subjects that are relevant to SDCERS.

Individually Managed Account ("IMA") Duties

- Assists Staff in conducting searches for investment managers and preparing recommendations for the Investment Committee.
- Oversees Manager preparation of annual Manager Investment Plans and, in conjunction with Staff, and reports completion to the Investment Committee.
- Reviews the Budget and Management Plans prepared by IMA Managers and, in conjunction with Staff, reports completion to the Investment Committee.
- Reviews Preliminary Investment Packages submitted by IMA Managers for compliance with approved Investment Plans.
- Performs other duties required to execute the IMA Investment Procedures.

Commingled Fund Duties

- Conducts, or assists Staff in conducting analysis of Commingled Fund offerings in accordance with the Commingled Fund selection process.
- Provides written analysis of Commingled Funds as requested by Staff.

<u>Duties of the Manager</u>

- Provides performance measurement data in form and substance as requested by the Retirement System.

Individually Managed Account Managers:

- Acquires, manages and disposes of assets on behalf of the Retirement System.
- Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries ("NCREIF"), the Pension Real Estate Association ("PREA") and the National Association of Real Estate Investment Managers ("NAREIM") ("Information Standards").
- Prepares Manager Investment Plans to be submitted to the Staff and Consultant.
- Prepares Preliminary Investment Packages to be submitted to the Staff and Consultant.

- Prepares Budget and Management Plans to be submitted to the Staff and Consultant.
- Meets with Staff and Consultant for the Annual Real Estate Portfolio Review.
- Provides Consultant, when requested, Annual Review information.
- Assists the Staff in preparing funding procedures.

Commingled Fund Managers:

- Adheres to reporting standards established by the CFA Institute and complies with generally accepted accounting principals ("GAAP").
- Executes and performs its duties under the terms of the investment vehicle documents.
- Provides timely requests for capital contributions.
- Provides quarterly financial statements and annual reports.
- Conducts no less frequently than annually meetings with Staff and Consultant to discuss important developments regarding portfolio, investment and management issues.

<u>Duties of Legal Counsel</u>

- Outside legal counsel, selected by the Retirement System as a representative for the Plan, will review upon request, all real estate related documents and/or provide advice for special investment situations as needed.

2. Investment Structures

The Retirement System recognizes that, regardless of investment structure, real estate is an illiquid asset class. Structures that maximize investor control of the assets are preferred, particularly in Stable investments. The Retirement System also recognizes that the Enhanced and High Return styles require the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.

The Stable investment style is considered to be less risky (thereby providing lower returns) than Enhanced and High Return investments. The lower risk assigned to Stable investments is due to three primary characteristics: (1) the level and predictability of the income generated, (2) the higher proportion of the total return attributable to income and (3) the limited use of debt usually associated with these styles.

The Enhanced and High Return investment styles seek to provide higher returns with higher risk than the Stable component of the portfolio. Enhanced investments are those assets capable of exhibiting Stable characteristics but in need of active management in order to regain or realize their Stable position. High Return investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion.

The Retirement System will utilize the following investment structures:

a) Individually Managed Accounts ("IMA")

For the Stable component, the Retirement System may purchase assets on a wholly owned basis through Individually Managed Account structures. The Retirement System may consider joint venture or co-investment ownership, as an equal or greater partner, within IMA structures.

b) Commingled Funds

For the Stable and Enhanced component, the Retirement System may also consider Open-End Commingled Funds (OECFs). OECFs are an infinite life pool of assets diversified by geography and property type. OECFs are complementary to smaller IMAs as they provide access to larger, stable, "trophy" properties that a smaller IMA would not be able to purchase. There are also OECFs that target Enhanced properties and provide similar diversification benefits.

For the Enhanced and High Return components, the Retirement System will purchase assets through the ownership of units or shares of Commingled Funds. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts (private) and limited liability corporations.

3. *Diversification*

The Retirement System will seek to diversify its equity real estate portfolio by manager; property type; property location; investment style; and, within the High Return segment, by investment strategy. Investment property types must be consistent with the style groups as follows:

- Stable includes office, retail, apartments and industrial.
- Enhanced and High Return have no restrictions on property type.

It is expected that at various points in time, the portfolio may be more heavily exposed to a single property type or location by virtue of opportunities available in the market, which are projected to generate the superior returns targeted by the Retirement System. Exposure to any single property type (i.e. office, retail, apartment, industrial or other) or geographic region in excess of forty percent (40%) of the total real estate portfolio must be reviewed as an exception by the Investment Committee.

Real estate has become an institutionally accepted asset class and real estate investment programs have matured. The development of overseas markets and investment opportunities provide investors with alternatives to further diversify their programs. SDCERS will seek to optimize risk-adjusted returns by investing in opportunities located both domestically and internationally. International investments will be limited to no more than 40% of the total targeted real estate portfolio and may include stable, enhanced and high return investments. International real estate investments will be held in commingled fund structures or as REIT securities with aggregate exposure to multiple property types, regions and operators in order to reduce specific asset risk.

Individually Managed Accounts

The Retirement System's IMA management agreements, individually or as a group, will provide for diversification by property type, economic sector and location in order to minimize any such concentration which might, in turn, impact the stability of rental income over market cycles. The Retirement System will diversify its manager risk by utilizing multiple IMA managers.

Commingled Funds

Diversification by Strategy and Manager will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the Enhanced and High Return allocation and/or the total portfolio. The Commingled Funds will provide reporting which will allow the Retirement System to monitor its geographic and property type diversification.

4. Leverage

The use of leverage is a prudent tool for enhancing returns and diversifying equity investments. As such, the Retirement System has approved leverage targets in order to maximize returns to the total portfolio. The availability and cost of leverage will be factors considered in determining its use. For the Total real estate portfolio, the Retirement System has established a fifty percent (50%) leverage target. In all cases, leverage shall provide a return premium over the unleveraged IRR equal to three basis points (3 bps) of return for each one percent (1%) of leverage.

a) Stable

Stable assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at relatively low risk to enhance return. For Stable real estate investments, the Retirement System has established a fifty percent (50%) leverage maximum. For any single Stable asset, new third-party debt or debt placed after the close will be limited to fifty percent (50%) of the market value of the asset. For any single Stable asset, existing debt or assumed debt will be limited to fifty-five percent (55%) of the market value of the asset. The debt must provide sufficient net operating income ("NOI") for one hundred percent debt-service coverage and must be non-recourse. Property specific debt will be monitored through the Manager Investment Plans and Preliminary Investment Packages.

b) Enhanced and High Return

Investments classified as Enhanced and High Return generally provide returns with a higher proportion of appreciation, as compared to income, than do Stable assets. (The Retirement System has determined that leverage on these real estate investments should be determined based on strategy and opportunity). Third-party debt on Enhanced assets must expect to provide positive debt-service coverage over the life of the investment, and must be non-recourse. The use of up to sixty-five percent (65%) debt within the Enhanced style of investment is consistent with the expectations used in establishing return objectives for the style, managers and individual assets. Investments classified as High Return may utilize third-party debt up to one hundred percent (100%) of value as an integral part of their total return strategy. Such investments will be made through Commingled Funds and will therefore have a specified leverage target or maximum stated in the offering documents. Debt levels and structures will be evaluated when reviewing a specific offering.

5. Investment Size

There is no maximum investment size for equity real estate investments, however, at the time of purchase the net investment value of a single property within an IMA account shall not exceed eight percent (8%) or for a Commingled Fund exceed fifteen percent (15%) of the net equity investment value of the total targeted real estate portfolio.

6. Valuations

All investments in an IMA vehicle will be independently valued not less than every three years by a qualified expert (certified MAI). During interim years, valuations will be performed by the Investment Manager responsible for management of each investment no less than annually. Such interim valuations may be used for performance measurement purposes.

Investments held in Commingled Funds will be valued not less than annually, using the valuation methodology approved with the selection of the particular investment.

C. Discretionary Authority

The Board controls the delegation of discretion. The Policies and Procedures described herein are structured to control investment risk as well as to enhance the Retirement System's ability to execute transactions.

1. *Individual Managed Accounts*

The IMA Manger selection process, more fully described in Section IV.A.1 of this document, is structured to ensure prudent Manager selection, in order to allow Manager(s) to assume an appropriate level of discretion, balanced by controls established and monitored by the Board, Staff and Consultant. Preference will be given to those IMA vehicles allowing greater investor control.

2. *Commingled Funds*

CFs are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in CF investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to those CF vehicles extending greater investor control. Investments made in CFs are monitored for compliance with vehicle documents through quarterly performance measurement procedures and through documentation provided with capital calls and income distributions.

IV. INVESTMENT PROCEDURES

The Annual Investment Plan identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The particular needs for each Annual Investment Plan will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All Annual Investment Plans will be consistent with the policies detailed in Section III.A-C.

A. Individually Managed Accounts

IMA Managers will have discretionary authority over the selection of specific investments. However, certain controls will be maintained to ensure compliance with program objectives, policies and procedures. The following procedures will be utilized for selection of IMA Managers, as well as for investment and the subsequent control and monitoring of IMA allocations.

1. *Manager Selection Process*

a) Staff, assisted by Consultant, shall establish qualification criteria consistent with the purpose of the search. In all cases, the minimum criteria will comply with those approved in the San Diego City Employees' Retirement System Investment Policy Statement.

b) Consultant shall screen its database to identify Manager candidates exhibiting qualities consistent with the qualification criteria. Staff may identify additional candidates.

c) Staff, assisted by Consultant, shall establish evaluation areas, desired levels of competency and respective weightings for evaluation factors.

d) A Request for Information (RFI) shall be forwarded to qualified Manager candidates identified by Consultant and Staff.

e) Staff and Consultant shall review and evaluate RFI responses, identify material issues related to each candidate, including proposed fee structures, and compile numerical rankings for each respondent for each objective evaluation factor.

f) Staff and Consultant, shall prepare a report to the Investment Committee and Board that reviews the findings of interviews/on-sites.

g) Staff, with the assistance of Consultant, shall recommend manager(s) for selection to the Retirement Administrator and Investment Committee.

h) Staff, with the assistance of Consultant, shall coordinate final presentations when necessary that will be held at a noticed meeting.

i) The Board shall select a Manager based on review and evaluation of information presented in the steps listed above.

j) Staff and Consultant will negotiate and close manager agreements, including final fee structures.

2. *Investment*

a) Manager Investment Plan

Each IMA Manager shall prepare a Manager Investment Plan, which sets forth the investment criteria for said Manager's allocation including the reinvestment of proceeds from sales or refinancings.

The investment criteria shall be consistent with the Strategic Plan and Investment Plan. Plans will also set forth the IMA Manager's evaluation of current market opportunities and include a summary of the Annual Disposition Review (see Section IV.A.3b of this document) of each asset in the context of the market evaluation. Each plan shall be updated annually.

b) Preliminary Investment Package

Prior to making an investment, the Manager shall provide a Preliminary Investment Package to Staff and Consultant. The preliminary package shall include an analysis of the investment relative to the currently approved Manager Investment Plan and the Retirement System Strategic Plan and Investment Plan, including a projected hold/sell analysis for the proposed asset. Additional materials to be included are: a locator map, photograph, site plan, financial summary including cash flow projections, five year cash on cash return projections, no less than a five year lease expiration schedule, a list of major tenants and a metropolitan market overview.

c) Funding Procedures

The Manager and Staff will work together to prepare written funding procedures for each IMA which are compatible with the system of the particular Manager as well as with SDCERS' systems. All procedures will enable timely and accurate reporting and control of cash flows. The Manager shall provide the Staff and Consultant with a critical dates list with respect to an acquisition, including document execution and funding and closing dates, updating the list as necessary.

3. *Control and Monitoring*

a) Budget and Management Plan

Within 30 days after the end of the calendar year each IMA Manager shall submit a Budget and Management Plan for the current year for each direct investment and the aggregate IMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income and cash flow statement for the current year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly or monthly distribution projections.

Within 45 to 60 days after the end of the calendar year, Staff and Consultant will meet with the Manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.

During the year, the Manager shall notify the Retirement System in writing within a reasonable time of the occurrence of any significant event relating to an investment, which was not projected in the submitted Budget and Management Plan.

b) Annual Disposition Review

IMA Managers shall provide an annual disposition analysis of each asset under management. The disposition analysis shall include hold/sell scenarios over long and short-term periods and incorporate an opportunity cost analysis. The analysis will also provide an evaluation of the asset in light of original investment objectives, the asset's compliance with the current Strategic Plan, Investment Plan and Manager Investment Plan and the reasonableness of the current valuation given market conditions for divestment.

The Annual Disposition Review shall be included in the Budget and Management Plan and the Manager Investment Plan.

B. Commingled Funds

The following procedures will be utilized in the selection, closing and monitoring of specific CF investments.

1. CF Selection Process

a) The Consultant will maintain an ongoing review of offerings within the institutional market place and, based on due diligence findings, refer appropriate CF investments to Staff.

b) Staff shall review the Consultant recommendations for compliance with agreed upon due diligence procedures for each fund recommendation.

c) Staff shall verify the compliance of each recommended fund with the approved Strategic and Investment Plans.

d) Staff and Consultant shall arrange presentations to the Investment Committee in order to allow the Committee to recommend a selection to the Board for approval.

2. CF Control and Monitoring

CF investments will be monitored quarterly by Staff, with Consultant's assistance, to evaluate investment performance and to ensure compliance with vehicle documents.

C. Performance Measurement Report

On a quarterly basis, the Consultant will prepare a comprehensive reporting and evaluation system addressing each investment and/or asset, IMA, and Manager. The evaluation system shall provide such information as may be required by the Retirement System to understand and administer its investments and Managers.

The content of the report shall include attributes for the assets individually (under IMAs), the investment managers and the total portfolio including: income, appreciation, gross and net returns, cash-flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and Strategic Plan and Investment Plan compliance. Each investment will be reviewed for significant events and projected performance and an opinion provided with respect to Manager performance. Budget and Management Plan variances, as reported by IMA Managers, will also be provided.

The Consultant shall prepare and forward to the Retirement System a Performance Measurement Report within ninety (90) days following the last day of each quarter.