



INVESTMENT POLICY STATEMENT

MISSION STATEMENT

THE MISSION OF THE SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM IS TO DELIVER ACCURATE AND TIMELY BENEFITS TO ITS PARTICIPANTS AND ENSURE THE TRUST FUND'S SAFETY, INTEGRITY AND GROWTH.

September 2015

TABLE OF CONTENTS

I. INTRODUCTION 1

II. STATEMENT OF INVESTMENT PHILOSOPHY..... 1

III. INVESTMENT GOALS..... 2

IV. GOVERNANCE 3

 Core Principles3

 Delegation3

 Investment Policy Statement Review4

V. ASSET ALLOCATION POLICY 5

 Permissible Investments5

 Criteria for inclusion of asset classes6

VI. REBALANCING POLICY 8

VII. MONITORING AND REPORTING..... 10

 Purpose 10

 Reporting 10

 Annual Monitoring of the Asset Allocation 11

 Manager Monitoring 11

VIII. SHAREHOLDER ACTIVITY 11

IX. IDENTIFICATION OF ROLES & RESPONSIBILITIES 12

Board of Trustees..... 12

 Investment Committee 12

 Investment Staff..... 13

 External Investment Consultants..... 14

 Investment Managers 16

 Custodian Bank 17

 Securities Lending Agent 18

 Other External Providers 18

APPENDIX: Asset Class Descriptions 19

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT POLICY STATEMENT

I. INTRODUCTION

The San Diego City Employees' Retirement System (SDCERS) Trust Fund (Fund) exists for the purpose of providing retirement income, disability income, and death benefits for the employees (and their beneficiaries) of The City of San Diego, The San Diego Unified Port District, and The San Diego County Regional Airport Authority.

This Investment Policy Statement (IPS) encompasses the investment goals, objectives and policies of the Fund. The purpose of the IPS is to assist the Board of Administration (Board), the Investment Committee and Staff in effectively supervising and monitoring SDCERS' Investment Program. This IPS addresses the following issues:

- The goals of SDCERS' Investment Program;
- Specific asset allocation, rebalancing policy, and investment policies
- Performance objectives; and,
- The roles and responsibilities of the parties involved with the oversight and management of the Fund's assets

The Board establishes this investment policy in accordance with applicable local, state, and federal laws. The Board has been and will continue to be guided by the Prudent Expert standard.

The IPS is designed to provide sufficient flexibility in the management and oversight process recognizing the dynamic nature of the investment environment, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program. This IPS provides broad guidance relating to the oversight and management of SDCERS' assets. Additionally, separate policies and procedures are defined with respect to individual asset classes (for instance, private equity, real estate) or investment-related functions (such as proxy voting, securities lending, etc.)

II. STATEMENT OF INVESTMENT PHILOSOPHY

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

Given the dynamic nature of investment markets and risks, evolution of products, institutional investment standards, and risk management practices, the Fund's IPS and associated elements, such as asset allocation, active risk profile, etc. shall be reviewed on a regular basis and updated, as needed, to ensure that Fund's strategy remains consistent with SDCERS' objectives and circumstances and the overall investment and economic environment.

The Board oversees and guides the Fund and its policies subject to the following basic fiduciary principles:

1. To act solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries. The Board's duty to its participants and their beneficiaries shall take precedence over any other duty;
2. To act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims;
3. To diversify the investments of the Fund so as to maximize the probability of achieving the actuarial rate of return while minimizing risk;
4. To diversify the Fund's investments so as to minimize the risk of loss associated with any single security, asset class, economic sector, and country / region;
5. To reduce the cost of funding benefits for participating employers and the individual participants of SDCERS; and,
6. To prudently manage the investments to defray costs.

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

III. INVESTMENT GOALS

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 rate of return equal to or in excess of SDCERS' actuarial investment return assumption.
- SDCERS should seek to earn a net-of-fee return in excess of its policy benchmark over the long term.
- SDCERS' assets will be managed on a total return basis, which takes into consideration both investment income and capital appreciation. While SDCERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

- SDCERS shall seek to avoid taking undue risk where there is not a reasonable belief such risk will be appropriately rewarded.

To achieve these objectives, SDCERS allocates its assets (asset allocation) with a strategic, long-term perspective of the capital markets.

IV. GOVERNANCE

Core Principles

The Board of Trustees has plenary authority and fiduciary responsibility for investment of monies and administration of SDCERS. The Board will always operate with the highest fiduciary standards with integrity and transparency. Where appropriate, the Board will seek expert advice and may delegate functions to internal sub-committees and Staff, who will serve as fiduciaries to the SDCERS.

Delegation

The Board may delegate investment responsibility of Trust Fund assets to multiple investment managers, who shall serve as fiduciaries to SDCERS, subject to these guidelines and 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, including, but not limited to, general consultant, real estate consultant, private equity consultant, and/or other asset class consultants or specialists (broadly referred to as Consultant(s) going forward). The Investment Committee is required to report to the Board at least quarterly or as directed. External consultants and advisers retained by the Board to assist with the oversight and management of the investment program shall serve as fiduciaries to SDCERS.

Manager Retention and Termination

The Investment Committee delegates to Staff, with assistance from its Consultant(s), the process of identifying and recommending managers for retention or termination. Staff, working with Consultant(s), will conduct comprehensive due diligence to provide the Investment Committee with necessary and sufficient information in support of recommendations to retain or terminate external investment managers. The specific elements of due diligence will vary based on the asset class and the characteristics of the individual manager(s) and / or strategies under consideration. The due diligence with respect to underlying investment managers shall include, but is not limited to, an assessment of the merits of investment process and philosophy, resources and talent available to the organization, the likelihood that key resources will remain, risk management processes, internal control and compliance processes and procedures, and other organizational considerations.

A recommendation to the Investment Committee to retain a manager shall be supported by evidence of the comprehensive due diligence by Staff and Consultant(s) and a description / analysis of the fit of the manager's strategy / portfolio in the context of the overall portfolio and its objectives.

For private markets investments, SDCERS shall not invest with any direct investment manager or any consultant who has discretion to invest on SDCERS' behalf, who elects to waive their fiduciary duty to SDCERS or who has any discretion in calculating their performance fee.

Reasons to terminate a manager may include, but are not limited to: turnover of investment management or other professionals that is likely to have an adverse impact on the performance of the strategy, divergence of strategy from stated objectives, violation of guidelines, legal action or action by any regulatory organization on the investment management firm, a change in the organizational structure that is likely to have an adverse impact on the performance of the strategy, availability / access to more compelling investment strategies, and poor performance.

The Board and Investment Committee may, at their discretion, delegate authority to Staff to retain investment managers, if in their opinion it is prudent to do so. Such retentions shall be presented to and ratified by the Investment Committee at the meeting subsequent to the managers' retention. Any delegation of authority to Staff shall define constraints, such as asset class, size of allocation, etc. within which Staff can retain managers.

Occasionally, it may become necessary to terminate an investment manager and/or limit/freeze an investment manager's trading discretion on an expeditious basis in order to protect the assets of the Fund. In circumstances where it is deemed prudent to terminate an investment manager on an expeditious basis (prior to when such action can be brought forward at an Investment Committee meeting), the CIO shall have the discretion, with the approval of the CEO, to initiate such action as is necessary to protect the interests of SDCERS and its assets. Any action taken in this regard shall be reported to the Investment Committee at its meeting subsequent to when such action is taken, with detailed information on the rationale for termination or limiting/freezing a manager's trading discretion.

Investment Policy Statement Review

This IPS shall be reviewed, at a minimum, every three years or as directed by the Board. Such reviews will focus on the continuing feasibility of achieving the investment objectives and the continued appropriateness of the investment policy relative to SDCERS' circumstances. It is not expected that the investment policy will change frequently; in particular, short-term changes in the financial markets generally should not require an adjustment in the investment policy. However, specific policy issues may be visited whenever the Board deems necessary. Specific occurrences which might suggest to the Board an earlier review include, but are not limited to, a change in the Fund's circumstances and / or a material change in the capital market environment.

V. ASSET ALLOCATION POLICY

The policies of SDCERS' investment program are designed to maximize the probability that the investment goals will be fulfilled.

SDCERS adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- 1) A projection of actuarial assets, liabilities and benefit payments and the cost of contributions;
- 2) Historical and expected long-term capital market risk and return behavior;
- 3) Expected correlations of returns among various asset classes;
- 4) An assessment of future economic conditions, including inflation and interest rate levels;
- 5) The current and projected funding status of the Fund;
- 6) Various risk/return scenarios; and
- 7) Liquidity requirements.

The Board shall review the overall asset allocation annually to provide a sound fiduciary oversight to the investment process. The implementation of the asset allocation will be conducted annually in the form of a Manager Structure Review. 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.

Permissible Investments

An investment type or strategy may be considered an asset class if the risk, return and correlation exhibited is sufficiently different from other standard asset categories such as equity, fixed income, real estate, and private markets, which include private equity and infrastructure.

The following asset classes / strategies are appropriate candidates for consideration of inclusion in the portfolio:

- U.S. equity;
- Non-U.S equity, including emerging markets;
- Global equity, including equities as listed above;
- Domestic fixed income, including high yield fixed income, floating rate debt and preferred stock;
- International fixed income, including high yield and emerging markets;
- Real estate, including private and public real estate;

- Private markets, including private equity and infrastructure
- Commodities;
- Strategies that utilize public and private market securities typically offered in a hedge fund structure
- Other alternative investments (currencies, timber, etc.).

Criteria for inclusion of asset classes

The following criteria will be used in assessing an asset class for inclusion in the Fund:

- Sufficient size and liquidity to permit an investment by the Fund.
- Staff and Consultant expertise to ensure prudent due diligence and a cost effective implementation.
- The incorporation of the asset class contributes to the return enhancement and / or further diversification of the Fund’s assets.
- Ability to measure performance and risk against readily available indices.

Following is SDCERS’ target asset allocation, approved by the Board on July 10, 2015.

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target Weight %</u>
U.S. Equity	Dow Jones U.S. Total Stock Market Index	21.0
Non-U.S. Equity	MSCI All Country World ex-U.S. Investable Market Index	14.0
Global Equity	MSCI All Country World Index	5.0
Emerging Markets Equity	MSCI Emerging Markets Index	1.0
Private Equity/Infrastructure*		13.0
Private Equity	Ten-Year Annualized S&P 500 Index + 300bps** Top 50th Percentile of the Burgiss Database (per SDCERS’ Private Equity Strategic Plan)	10.0
Infrastructure	CPI + 300 bps**	3.0
Emerging Market Debt	40% JP Morgan EMBI Global Diversified 60% JP Morgan GBI-EM Global Diversified	5.0
Real Estate	10% Wilshire REIT 1Q 1997 through 2Q 2008 and EPRA/NAREIT Global Index from 3Q 2008 90% NFI-ODCE + 50 bps	11.0
Opportunity Fund***	78% MSCI All Country World Investable Market Index 22% Barclays Intermediate Aggregate Bond Index	8.0
U.S. Fixed Income	Barclays Intermediate Aggregate Bond Index	22.0
Total		100.0

*Any uninvested portion of the Private Equity allocation up to 5% will be invested in U.S. Equity. Uninvested allocations of Private Equity in excess of 5% and all uninvested portions of the Infrastructure allocation will be invested in a proportion equal to 60% to U.S. Equity and 40% to Non-U.S. Equity.

**For the purpose of measuring performance of the Private Equity and Infrastructure portfolios as a component of the Total Fund Benchmark, the General Consultant will utilize an annualized rate of return of 10%.

***Note: The Opportunity Fund has a maximum allocation of 8%. Any uninvested portion of this allocation is prorated across public equities and U.S. fixed income in SDCERS' 78%/22% ratio of return-seeking (non-Fixed Income) to risk-reducing (Fixed Income) assets.

The Total Fund Benchmark shall represent a weighted average of the individual asset class benchmarks based on strategic target weights to each asset class. Due to the challenges associated with rolling up the primary Private Equity asset class benchmark (Ten-Year Annualized of S&P 500 Index + 300 bps) into the Total Fund Benchmark, an Annualized Absolute Rate of Return of 10% will be used instead to represent the Private Equity weight in the Total Fund Benchmark.

The Benchmarks for each of the asset classes shall be reviewed regularly, but no less frequently than once every three years, to ensure that they remain appropriate. Staff and Consultant(s) shall recommend changes to asset class benchmarks as appropriate. In the event that any of the benchmarks defined above are discontinued or their composition changes, the Investment Committee may in its sole discretion substitute other benchmarks upon the recommendation of the Staff and Consultant(s).

Opportunistic Investments

Opportunistic investments encompass a broad range of alternative strategies that do not fit within traditional asset classes or share characteristics of more than one asset class. Such investments may also be truly opportunistic in the sense that they may be available for investment only during certain market environments. The Board, therefore, adopts a policy allocation of up to 8% of total assets to such investments that have acceptable risk/return characteristics, and which can further the diversification of the investment program. Such investments may include, but are not limited to, bank loan funds, distressed mortgage debt, niche private investments, certain types of hedge funds, and commodities.

Liquidity

SDCERS recognizes that certain investments that entail a greater degree of illiquidity, such as private equity, real estate, infrastructure, etc. offer the potential for greater return and / or enhanced diversification. As a long-term investor, SDCERS has the ability to bear illiquid investments. In recommending allocations to illiquid asset classes, Staff and the General Investment Consultant shall consider projections of the net annual cash flows of SDCERS and identify a prudent level of assets that can be committed to such illiquid asset classes. Consideration should also be given to the size that such allocations may comprise in times of market stress to ensure that the overall allocation to such categories does not exceed the intent of policy and negatively impact the Fund's ability to meet ongoing cash flow needs.

Leverage

Leverage is a condition where the net potential monetary exposure of an obligation exceeds the value of the underlying assets. Leverage is not permitted at the Total Fund level. Underlying portfolio managers may use leverage so long as it is used in a manner consistent with the discipline for which the Board hired the investment manager and does not introduce material leverage at the Total Fund level. Use of leverage will be controlled by the investment manager’s guidelines and will be subject to review by Staff, Consultants, and/or the Investment Committee.

Derivatives

For the purposes of this policy, derivatives include, without limitation: futures contracts; options; options on futures contracts; forward contracts; swap agreements, including swap contracts with embedded options; any instrument or contract intended to manage transaction or currency exchange risk in purchasing, selling or holding investments; and any other instrument commonly used by institutional investors to manage institutional investment portfolios.

At the Total Fund level, derivatives may be used to maintain the program’s strategic asset allocation. External managers retained by the Board may be permitted to utilize derivatives to implement their investment strategies. Each individual manager’s guidelines shall specify guidelines regarding derivatives usage. Derivative usage by investment managers should not introduce leverage to the Total Fund.

Under no circumstances may derivatives or leverage be used to circumvent the intent or limits otherwise prescribed by this policy.

VI. REBALANCING POLICY

The purpose of rebalancing is to minimize unintended drift from SDCERS’ strategic asset allocation, thus ensuring compliance with policy and reducing portfolio tracking error relative to the policy benchmark. Systematic rebalancing should reduce volatility and increase portfolio returns over the long term.

SDCERS maintains a defined and disciplined rebalancing process, whereby target allocations to asset classes will not exceed certain rebalancing ranges as outlined in the following chart.

<u>Asset Class</u>	<u>Target Weight %</u>	<u>Minimum Weight</u>	<u>Maximum Weight</u>
		<u>%</u>	<u>%</u>
U.S. Equity	21.0	18	24
Non-U.S. Equity	14.0	11	17
Global Equity	5.0	2	8
Emerging Market Equity	1.0	0	3
Private Equity / Infrastructure	13.0	0	18
Emerging Market Debt	5.0	2	8

Real Estate	11.0	6	16
Opportunity Fund	8.0	0	8
U.S. Fixed Income	22.0	19	25
Total	100.0		

The adopted rebalancing ranges take into consideration the trade-off between the portfolio tracking error relative to its strategic allocation and the transaction costs of rebalancing. The above ranges were approved by the Board on May 17, 2013.

The Board delegates to Staff the responsibility and authority to:

- Monitor market values against the target allocations.
- Determine whether or not the allocation to any asset class(es) and/or investment vehicle(s) are outside of rebalancing ranges.
- Instruct relevant investment managers to liquidate the appropriate dollar value of securities and reallocate cash in a manner so as to maintain allocations within rebalancing ranges.
- Evaluate and direct portfolio cash flows so as to maintain allocations within rebalancing ranges.
- Utilize low cost passive indices or exchange traded futures contracts, where appropriate, in lieu of existing portfolio managers, to maintain asset/sub-asset class exposure within rebalancing ranges.
- Report to the Board at each Board meeting the status of the Trust Fund asset allocation and any rebalancing activity.
- Evaluate SDCERS’ rebalancing process regularly, but no less frequently than every three years, and recommend any changes to the Board, as needed.

When the allocation to an asset/sub-asset class(es) falls outside the range specified in the IPS, a rebalancing transaction shall be initiated to bring the asset class weight within the range, keeping in mind, liquidity, costs and risks. Public market asset classes will generally be rebalanced to the midpoint between target and the edge of the closest rebalancing range in an effort to reduce costs associated with rebalancing all the way back to target. There may be times when this does not hold true and Staff will report a deviation from this guideline to the Board.

Less liquid private assets such as real estate and private equity will not be managed within rebalancing ranges, but will instead be managed to target over time through distributions and strategic new investments. Any assets outside of rebalancing ranges will be reported to the Board.

VII. MONITORING AND REPORTING

Purpose

Performance and risk will be monitored to ensure compliance and progress toward stated goals and objectives.

Performance Monitoring

- The Fund's performance shall be measured against the actuarial assumed rate of return, inflation, a universe of other public funds, a custom performance benchmark / policy portfolio, 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. Active managers should exceed their respective benchmark net of fees over a three- to five-year period.

Reporting

The Board believes timely reporting and communications concerning the status of investments and their performance is essential. In general, equity and fixed income managers shall provide monthly reports to Staff. Real estate, private equity and infrastructure 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 Consultant(s) shall be provided quarterly to the Investment Committee or the Board. These reports are to include:
 - Performance of the Total Fund and Attribution,
 - Performance of the Individual Managers,
 - Equity Performance,
 - Fixed Income Performance,
 - Real Estate Performance,
 - Private Equity Performance,
 - Infrastructure Performance,
 - Opportunity Fund Performance,
 - Time-weighted Rates of Return and Rankings.

Staff shall report to the Board or its Investment Committee at regular Board meetings regarding the status of investments, including the asset allocation structure of the Fund and a list of

managers on the Manager Monitoring Report. Staff shall report on an annual basis the status of securities lending activity and a review of portfolio fees and costs.

Annual Monitoring of the Asset Allocation

Because the Board reviews and establishes the policy for investments annually 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 Chief Executive Officer and Chief Investment Officer in the implementation of the investment policy.

Active Risk Budget

Active Risk, commonly referred to as tracking error, is the risk associated with the differences in returns between the policy benchmark and the actual results of the portfolio. Active risk may emanate from two primary sources: (1) differences between the securities held within a particular asset class composite and the asset classes composite's benchmark (security selection risk) and (2) the difference between the asset allocation weights of the overall policy and the actual weights across asset classes (asset allocation risk).

Active risk is measured as the standard deviation of the difference between the monthly returns of an active manager's actual portfolio and their respective benchmark(s). The active risk of the Fund will be measured using the most recent five years (60 months). The budgeted amount of active risk will be 1.75%.

Manager Monitoring

Managers will be reviewed on a continuous basis by Staff and the Consultants based on custodial holding reports, quarterly performance reports, manager announcements, monthly performance and compliance reports as required by Staff, and other inputs. These reviews will be summarized in the quarterly report prepared by the Consultant(s) and Staff for Board consideration, who shall report on whether SDCERS' expectations have been met. Managers meeting expectations will be categorized in Good Standing. Managers not meeting SDCERS' expectations will be designated as Under Review. Managers designated as Under Review shall undergo a formal review by Staff and the Consultant(s) and a recommendation for action will be made.

VIII. SHAREHOLDER ACTIVITY

In recognition that proxy voting rights are considered assets of the Fund, SDCERS' Board acknowledges its fiduciary responsibility to vote proxies in a timely manner and maintain accurate records of all proxy voting activity in compliance with all applicable laws.

To assist the Board in carrying out its fiduciary responsibilities in voting proxies, the Board, at the recommendation of the Investment Committee, has the authority to set proxy voting guidelines to be used in voting proxies on behalf of SDCERS. The Board has delegated the voting of all proxies and recordkeeping to a third-party Proxy Voting Agent and Staff. The Proxy Voting Agent will vote all proxies in accordance with SDCERS' Proxy Voting Guidelines. SDCERS' Staff will monitor the voting activities and recordkeeping of the Proxy Voting Agent.

The Board or Investment Committee shall meet regarding proxy issues as necessary throughout the year. SDCERS' Proxy Voting Guidelines will be evaluated and updated no less than annually.

IX. IDENTIFICATION OF ROLES & RESPONSIBILITIES

Board of Trustees

It is the responsibility of the Board to formulate policy, and 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.

The assets of the 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:

1. 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.
2. The Board shall seek to 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.

Investment Committee

The Investment Committee's responsibilities include, but are not limited to:

- Annually review and recommend the long range asset allocation strategy and manager structure of SDCERS.
- Conduct an asset/liability study every three to five years (or more frequently if circumstances warrant) as a basis to establish asset allocation goals and objectives.
- Review quarterly, the investment performance of SDCERS total fund and underlying portfolios, with the assistance of the General Investment Consultant.
- Review quarterly, real estate performance reports from SDCERS' Real Estate Consultant.
- Review quarterly, private equity and infrastructure performance reports from SDCERS' Private Markets Consultants.
- Retain a General Investment Consultant to assist with performance measurement, asset allocation, manager reviews, investment research, manager searches and other projects as needed.

- Retain a Real Estate Consultant to assist with performance measurement, structure of the program, investment research and recommendations, and development of the strategic policy and annual investment plan.
- Retain a Private Markets Consultant to assist with performance measurement, structure of the program, investment research and recommendations, and development of the strategic policy and annual investment plan
- Retain a qualified custodian to safeguard SDCERS' assets.
- Monitor SDCERS' investment managers to ensure they adhere to policies set forth in this document and recommend changes to the Board, as needed. 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.

Investment Staff

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/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 to external sources.
- Monitor public market, real estate, private equity and infrastructure managers for adherence to appropriate policies, guidelines and Investment Management Agreement specifications. Report to the Board any significant violations discovered.
- Maintain relationship with and monitor master custodian to ensure compliance with contract and all commitments.
- Maintain relationships with consultants (general investment, real estate, private markets, 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, including the presentation of hiring recommendations, or monitor the General Investment Consultant in investment manager searches as assigned by the Board and Investment Committee.

- Review the public markets Manager Monitoring Report and related private markets monitoring reports for real estate, private equity and infrastructure, explain 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 Consultant(s) (general investment, real estate, private markets, and other asset class specialists); 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.
- Manage liquidity requirements to meet the System's needs without generating excessive trading costs.
- Avoid any conflicts of interest.

External Investment Consultants

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.
- Compliance with SDCERS' Conflict of Interest Policy.

Real Estate Consultant

A detailed set of guidelines and responsibilities are contained in a separate Real Estate Investment Policy Statement. Provided below is a list covering the broad responsibilities of the Real Estate Consultant.

- Report directly to the Board, Investment Committee and Staff on matters of policy.
- Bring any non-conforming items or significant issues to the attention of Staff and/or Board.
- Monitor the performance of the real estate portfolio and compliance with approved policy.
- Prepare the Strategic Plan and Real Estate Investment Plan and, in conjunction with Staff, present the Plans to the Investment Committee annually for review.
- Prepare a quarterly Performance Measurement Report and present the report to the Investment Committee.
- Assist Staff in the Annual Real Estate Separate Account Portfolio Reviews.
- Provide Staff and/or Board with topical research and education on investment subjects that are relevant.
- Compliance with SDCERS' Conflict of Interest Policy.
- Monitor all elements of cost of the real estate portfolio and legal structure in order to avoid excess cost.

Private Markets Advisors

A detailed set of guidelines and responsibilities are contained in a separate Private Markets Policy Statement. Provided below is a list covering the broad responsibilities of the Private Markets Advisors.

- Prepare the Strategic Plan and Investment Plan for private equity and infrastructure and, in conjunction with Staff, present the Plans to the Investment Committee annually for review.

- Manage the private equity and infrastructure investment portfolio and legal structure.
- Monitor all elements of cost of the private equity and infrastructure portfolio and legal structure in order to avoid excess cost.
- Identify, perform due diligence, negotiate, execute, and manage commitments and investments through the private equity and infrastructure portfolio.
- Oversee the creation of the appropriate legal documentation for each investment.
- Monitor investments and report quarterly to the Board and Staff on investment performance.
- Manage all aspects of investments made on behalf of SDCERS through their lifecycle, including the disposition of those assets.
- Review relevant issues in private equity and infrastructure through periodic workshops, discussions, and distribution of research material.
- Compliance with SDCERS' Conflict of Interest Policy.

Proxy Voting Consultant

The Proxy Voting Agent shall be responsible for the following:

- Vote proxies in a timely manner per SDCERS' Proxy Voting 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.
- Provide Staff with company-specific corporate governance profiles, pertinent statistical reporting and yearly review of the results of corporate annual meetings.
- Compliance with SDCERS' Conflict of Interest Policy.

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.

- Compliance with SDCERS' Conflict of Interest Policy.
- 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, private equity, and some 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:
 - Major changes in the Investment Manager's outlook, investment strategy and portfolio structure;
 - Significant changes in ownership, organizational structure, financial condition or senior personnel;
 - Any changes in the Portfolio Manager or other key personnel assigned to the SDCERS account;
 - Each significant client which terminates its relationship with the Investment Manager, within 30 days of such termination;
 - All pertinent issues which the Investment Manager deems to be of significant interest or material importance; and
- Meet with the Board or its designee(s), as needed.

Custodian Bank

The Custodian shall be responsible for the following:

- Provide complete global custody and depository services for the designated accounts.
- 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 General 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.

Securities Lending Agent

SDCERS' policies and guidelines governing securities lending shall be implemented through the Custodian (or third party lending institution other than the custodian or a combination of securities lending providers). The provider will be governed by a separate contract, distinct from a custody relationship, detailing the type of securities lending relationship and program. This is both mandatory and essential in the treatment of securities lending as an investment function with the associated risks and return implications and fiduciary responsibility.

The securities lending provider must exercise investment discretion within the overall objective of: preserving principal; providing a liquidity level consistent with market conditions and the lending and trading activities of the Funds' assets; and maintaining full compliance with stated objectives and statutory provisions. The securities lending provider shall exercise prudence and expertise in managing the cash collateral reinvestment function.

Other External Providers

All other external providers will fulfill their responsibilities in accordance with prevailing contracts and act in the best interest of plan participants.

APPENDIX: Asset Class Descriptions

U.S. Equity – U.S. equity, as measured by the Dow Jones U.S. Total Stock Market Index, provides exposure to all segments of the U.S. equity market, including, but not limited to, growth and value stocks of large-, mid- and small-capitalization U.S. companies. The Index is the broadest measure of performance of the aggregate domestic stock market.

Non-U.S. Equity – Non-U.S. equity markets encompass those of developed and emerging economies, as measured by the MSCI All Country World (ACW) ex-U.S. Investable Market Index (IMI). The MSCI ACW ex-U.S. IMI covers large-, mid- and small-capitalization companies across 23 developed, excluding the U.S., and 21 emerging market countries and covers approximately 99% of the international equity investment opportunity set. Emerging markets are classified as countries in the process of rapid business or social growth.

Emerging Markets Equity – Emerging markets represent countries in the process of rapid economic growth and that are progressing towards becoming advanced, as measured by the MSCI Emerging Markets (EM) Index. The MSCI EM Index captures large and mid-cap companies across 21 Emerging Markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

Global Equity – Global equity is classified as U.S., non-U.S. developed, and emerging market securities, as measured by the MSCI All Country World Index. The factors that have made U.S. and non-U.S. equity markets distinct enough to be viewed as separate asset classes have receded in recent years. Increasing similarities among countries and markets suggest that a global approach to investing in the world's equity markets may be optimal.

Domestic Fixed Income – As defined by the Barclays Intermediate Aggregate Bond Index, domestic fixed income consists of investment grade, U.S. dollar-denominated, fixed rate, taxable bonds, including Treasuries, government-related and corporate securities, MBS, ABS, and CMBS. Domestic fixed income may also include high yield securities.

Emerging Market Debt (EMD) – EMD primarily consists of liquid, fixed rate, debt instruments issued by emerging market sovereign or quasi-sovereign entities, including Brady bonds, loans, and Eurobonds. EMD may be denominated in local currency or in the U.S. dollar. The EMD performance benchmark is comprised of 40% of the JP Morgan Emerging Markets Bond Index (EMBI) Global Diversified, which measures dollar-denominated Brady bonds, traded loans and Eurobonds issued by emerging market sovereign and quasi-sovereign entities, and 60% of the JP Morgan Government Bond Index Emerging Markets (GBI-EM) Global Diversified, which is a comprehensive measure of local currency denominated, fixed-rate, government debt issued in emerging markets.

Real Estate – Real estate includes investments in real property including office buildings, shopping centers, industrial property, hotels, warehouses, and apartments. Investment vehicles may include direct investments, public real estate investment trusts (REITs), and private partnerships. The real estate performance benchmark is comprised of 90% NFI-ODCE Index, an index comprised of the results of open-end commingled funds pursuing a core investment strategy, and 10% of the FTSE

EPRA/NAREIT Global Index, which includes all tax-qualified equity REITs meeting certain size and liquidity criteria that are listed on the New York Stock Exchange, the American Stock Exchange, or the NASDAQ National Market List.

Private Equity – Private equity is equity capital that is not quoted on a public exchange. Strategies include leveraged buyouts, venture capital, mezzanine, distressed investments, and special situations. The long-term performance benchmark is the 10-year average of the S&P 500 Index plus a 3% annual premium.

Infrastructure - Infrastructure is broadly defined as the essential assets a society requires to facilitate the orderly operation of its economy and can be broken out into three broad categories: transportation, utility, and social. Typically they are long-lived assets with low growth, similar volatility to real estate, and have an income stream tied to GDP/inflation that is greater than bonds or core real estate. The performance benchmark is the Consumer Price Index (CPI) plus a 3% annual premium.

Opportunity Fund – Opportunity fund investments should generally be truly opportunistic in the sense that they may be available for investment only during certain market environments. The Opportunity Fund can also encompass a broad range of strategies that do not fit into within traditional asset classes or share characteristics of more than one asset class.. Such investments may include, but are not limited to: bank loan funds, distressed or high yield debt, niche private investments, and certain types of hedge funds. The benchmark for this asset class shall be 78% equities, as measured by the MSCI All-Country World Investable Market Index, and 22% bonds, as measured by the Barclays Intermediate Aggregate Bond Index.