



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 June 30, 2009

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SUPPLEMENTAL POLICES

1. SDCERS' Real Estate Strategic Plan as of 7/17/2009
2. SDCERS Private Equity Program Policies

Risk Management and Rebalancing

SDCERS seeks to maintain the Trust Fund tracking error to within +/- 1.95% 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 to 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.

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%	5.08% - 10.12%
Large Cap Core	7.60%	5.38% - 9.82%
Large Cap Value	7.60%	5.53% - 9.67%
Mid Cap Core Growth	3.80%	2.54% - 5.06%
Mid Cap Core Value	3.80%	2.61% - 4.99%
Convertible Bonds	3.00%	2.28% - 3.72%
Small Cap Growth	1.90%	1.03% - 2.77%
Micro Cap Growth	1.90%	0.79% - 3.01%
Small Cap Value	3.80%	2.59% - 5.01%
Subtotal Domestic Equity ***	41.00%	
International Equity:		
International Growth	6.80%	4.55% - 9.05%
International Value	6.80%	4.61% - 8.99%
International Small Cap	3.40%	2.25% - 4.55%
Subtotal Int'l Equity	17.00%	

Asset Classes & Manager Structure	Target Allocations *	Allocation ** Rebalancing Ranges (Min/Max)
Fixed Income:		
TALF	2.00%	3.49% - 4.51%
Core Plus Bonds	20.00%	15.72% - 20.28%
Subtotal Domestic Fixed Income	22.00%	
International Fixed Income	4.00%	3.12% - 4.88%
Market Neutral	5.00%	4.59% - 5.41%
Real Estate	11.00%	8.00% - 14.00%
<i>Private Equity *** (currently 0%)</i>	5.00%	<i>N/A (due to illiquidity)</i>
Total Target Allocation	100.00%	

* Revised 8/20/09

** Updated 12/21/07 (Based upon +/- 1.95 standard deviation factors)

*** On 9/20/07 private equity was added as a new asset class at a target allocation of 5%, expected to be funded over several years. Domestic equity allocations will be proportionally reduced from 38% to 33% in one percent increments as private equity capital is invested and the allocation increases from zero to five percent of total assets.