

APPENDIX I - Glossary

This appendix to the Investment and Operating Guidelines for the Public School Retirement System of the City of St. Louis ("PSRSSTL") is written to provide additional background regarding the selection and interpretation of various standards contained within the guidelines.

- ◆ **Policy Index** - Total return should meet or exceed the System’s Policy Index . . .
(Revised 09-30-09)

The Policy Index is constructed by using target asset class percentages applied to market rates of return. The Policy Index for the System is calculated using the following target allocations and indices:

Asset Class	Target %	Rating Index
Equities		
Domestic Large Cap	22.0	S&P 500
Domestic Mid Cap	3.0	S&P 400
Domestic Small Cap	8.0	Russell 2000
Established International	9.0	MSCI-EAFE
Emerging International	3.0	MSCI-Emerging Markets
Global Asset Allocation	10.0	Based Upon Strategy
Fixed-Income		
Domestic Core Bonds	12.0	LB Aggregate
Domestic High-Yield	5.0	Citigroup High Yield
Global Bonds	6.0	Citigroup World Government
Credit Opportunities	5.0	Barclays Corp & High Yield/S&P/LSTA
Market Neutral	4.0	T-Bills + 3%
Hedge Fund Strategies	5.0	Based Upon Strategy
Real Estate	5.0	Frank Russell NCREIF
Private Equity Investments	3.0	Based Upon Strategy and Vintage Year

- ◆ **Risk-adjusted Returns** should consistently rank . . .

Risk-adjusted returns are usually calculated by isolating the return earned in excess of the risk free rate (the T-bill rate), and evaluating that return in relation to the additional risk (volatility, or standard deviation) incurred in earning the incremental return.

For example:

	<u>Return</u>	<u>Risk</u>	<u>Excess Return</u>	<u>Excess Return Divided By Risk</u>
T-Bills	8%	--	--	
S&P 500	12%	16%	4%	4/16 = 0.25
Manager A	12%	20%	4%	4/20 = 0.20

In this example, both the Equity Manager and the market earned 4% over T-Bills, but the Equity Manager incurred somewhat more risk and had lower risk-adjusted return - not a desirable situation. A higher risk adjusted return indicates that more return was achieved for the amount of risk taken.

APPENDIX II - Asset Allocation Policy

The nominal rate of return objective for the Fund is 8.6%. In order to have a reasonable probability of achieving this return, the Trustees have adopted the asset allocation policy outlined below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Exposure Range</u>
Equities	45.0%	34 - 57%
Domestic Large Cap	22.0%	17 - 27%
Domestic Mid Cap	3.0%	2 - 5%
Domestic Small Cap	8.0%	6 - 10%
Established International	9.0%	7 - 11%
Emerging International	3.0%	2 - 4%
Global Asset Allocation	10.0%	8 - 12%
Fixed Income	23.0%	16 - 30%
Domestic Investment Grade	12.0%	9 - 15%
Domestic High-Yield	5.0%	3 - 7%
Global Bonds	6.0%	4 - 8%
Credit Opportunities	5.0%	2 - 7%
Market Neutral	4.0%	2 - 5%
Hedge Funds	5.0%	3 - 7%
Real Estate	5.0%	3 - 7%
Private Equity	3.0%	2 - 4%
Cash	0.0%	0 - 10%

(Revised 09-30-09)

APPENDIX III - Performance Benchmarks (Revised 09-30-09)

This Appendix provides specific guidance regarding individual Manager assignments for classifications, benchmarks and guideline exceptions. Combined with the applicable sections of the Investment and Operating Guidelines and PSRSSTL Rule XIV, this Appendix provides a complete statement of investment objectives, rules and guidelines for each investment Manager, exclusive of rules or guidelines directly incorporated into contracts or other similar agreements.

Manager/Product Name	Passive Benchmark	Peer Group Assignment and Benchmark	Guideline Exceptions and Clarifications
U.S. EQUITY MANAGERS			
Small Cap Managers	Russell 2000 Index	The ICC* Universe of Small Capitalization Managers	
Mid Cap Managers	S&P 400 Mid Cap Index	The ICC Universe of Mid Capitalization Growth Managers	
Large Cap Growth Managers	Russell 1000 Growth Index	The ICC Universe of Large Capitalization Growth Managers	
Large Cap Value Managers	Russell 1000 Value Index	The ICC Universe of Large Capitalization Value Managers	
Large Cap Core Managers	S&P 500 Index	The ICC Universe of Large Capitalization Core Managers	
U.S. BOND MANAGERS			
High Grade Core Managers	Lehman Brothers Aggregate Bond Index	The ICC Universe of Core Fixed Income Managers	
High Yield Bond Managers	Citigroup High Yield Index	The ICC Universe of High Yield Fixed Income Managers	
NON-U.S. EQUITY MANAGERS			
International Equity Managers	MSCI-EAFE Index, Unhedged	The ICC Universe of International Equity Managers	
GLOBAL BOND MANAGERS			
Global Bond Managers	Citigroup World Government Bond Index, Unhedged	The ICC Universe of Global Bond Managers	
CREDIT OPPORTUNITY MANAGERS**			
Existing Manager	50% Bardays Corporate/ 25% Bardays High Yield/ 25% S&P/LSTA Leveraged Loan	The ICC Universe of Credit Opportunity Managers	
GLOBAL ASSET ALLOCATION MANAGERS**			
Existing Manager	60% MCSI World/40% CITI WGBI (Half-Hedged)	The ICC Universe of Balanced Managers	
Existing Manager	65% MSCI World/35% Lehman Agg	The ICC universe of Balanced Managers	
REAL ESTATE MANAGERS**			
Existing Managers	Frank Russell NACREIF	The ICC Universe of Real Estate Managers	
ALTERNATIVE INVESTMENTS**			
Private Equity Managers	Venture Economics Private Equity	Internal Rate of Return based on Vintage Year	
MARKET NEUTRAL MANAGERS**			
Existing Manager	90-Day T-Bills +3%	The ICC Universe of Short-Intermediate-Term Bond Managers	
HEDGE FUND MANAGERS**			
Existing Managers	90-day T-Bills + 6%	Variable - Depending on the Manager's Style	

* Independent Consultants Cooperative

** Asset class excluded from certain sections of the guidelines because of separate contract or agreement