

**Investment Policy Statement
For
POLICEMEN AND FIREMEN'S RETIREMENT FUND FOR
THE CITY OF NEW HAVEN**

**Amended July 8, 2004
Amended 2013**

BACKGROUND AND OVERVIEW

POLICEMEN AND FIREMEN'S RETIREMENT FUND FOR THE CITY OF NEW HAVEN

I. INTRODUCTION

A. Overview

1. Address: City of New Haven, Connecticut
200 Orange Street
New Haven, CT 06510
2. Primary Contacts Mr. Jerome Sagnella
Mr. James Kottage
3. Plan Sponsor City of New Haven
4. Actuary Hooker & Holcombe Companies
5. Consultant Gray & Company
6. Attorney Brenner, Saltzman & Wallman LLP
7. Custodian Northern Trust
8. Auditor
9. Tax ID Number 06-6001876
10. Fund Year End June 30th

- B.** This document refers to the pension plan sponsored by New Haven, Connecticut, which was established on January 1, 1938 under provisions of the City Charter to provide service and disability pensions, as well as death benefits, to eligible employees of the City of New Haven. The Fund is administered by a retirement board consisting of seven members.

II. FUND PROVISIONS AND BENEFITS ELIGIBILITY REQUIREMENTS

- A.** Essentially all full-time employees of City of New Haven, except public safety employees, are eligible to participate in the plan. The plan also has disability retirement, death benefits and termination benefits under various conditions. The plan is financed as follows:

Employee contributions:

Tax deferred employee contributions are based on 8.75% of all earnings excluding extra duty earnings and 3.8% of extra duty earnings for policemen, and 4.3% of extra duty earnings for firemen.

City contributions: The annual amount necessary to fund the Actuarially determined cost of the plan.

Retirement benefits are paid in the form of a monthly annuity with various options for continuation of benefits to a surviving spouse following the retired participant's death.

- B. The Fund's investments represent an opportunity to reduce the cost of the Fund's benefits to the City, to provide a funding resource for future enhancement of the Fund's benefits, and to insulate the Fund's assets against the deterioration of purchasing power caused by inflation.

III. CASH FLOW AND LIQUIDITY REQUIREMENTS

- A. City of New Haven's contributions are governed by law. For purposes of this policy, the Board is assuming that City of New Haven is able and ready to meet actuarially determined funding requirements of the statute.
- B. The forecast of net cash flows (contributions, plus total investment returns, minus pension benefit payouts and expenses) for the Plan are such that the amount of benefit payments slightly exceeds employer contributions. The difference between these two amounts will be funded from income earned on investable assets. At this juncture, there exists no significant liquidity need for the plan to fund benefits.

C.

**INVESTMENT POLICY GUIDELINES
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**STATEMENT OF INVESTMENT OBJECTIVES,
POLICY AND GUIDELINES**

**POLICEMEN AND FIREMEN'S RETIREMENT FUND FOR
THE CITY OF NEW HAVEN**

I. INTRODUCTION

A. Purpose of this Policy Statement

This policy statement outlines the goals and investment objectives for the Policemen & Firemen's Retirement Fund for the City of New Haven (the "Fund"). This document is intended to provide guidelines for managing the Fund's assets. The policy will define guidelines and limitations for each asset class and for portfolios within each class.

- a) Discusses appropriate risk/return parameters for the investment of the Fund's assets;
 - b) Establishes investment guidelines regarding the selection of investment managers, permissible investments and diversification of assets;
 - c) Specifies the criteria for evaluating the performance of the investment managers and of the Fund as a whole; and,
 - d) Defines the responsibilities of the Board of Trustees and other parties responsible for the management of the Fund's assets.
2. All objectives are based on a five to ten year investment horizon, so interim fluctuations should be viewed with the appropriate perspective. The Board of Trustees may make changes at any time they deem appropriate.
 3. The Board of Trustees believes that the investment policies described in this statement should be dynamic. These policies reflect the Fund's funding status and the Board's philosophy regarding the investment of assets. These policies will be reviewed annually and revised as required.

II. REGULATORY ENVIRONMENT

- A. The Fund operates in accordance with all applicable state and federal statutes, specifically the laws of the State of Connecticut.

III. ROLES AND RESPONSIBILITIES

A. Board of Trustees

The Board of Trustees (the "Board") is responsible for defining and implementing the investment objectives and policies for the Fund. It is expected that the objectives and policies described herein will be used as the criteria for selecting and evaluating the appropriate investment managers for the management of the Fund's assets. The Board has the responsibility to make changes in investment policy and to implement approved policy, guidelines and objectives. These responsibilities shall include:

1. Establishing a long-term strategic and asset allocation policy for the Fund;

2. Monitoring and evaluating investment manager performance and adherence to policy guidelines, and the performance of the Fund as a whole;
3. Selecting or terminating investment managers ("Manager(s)"), consultants and the custodian for the Fund's assets;
4. Monitoring and controlling the costs of administering and managing the portfolio; and
5. Establishing a due diligence process and conducting site visits as necessary.

B. Retirement Administrator

The Retirement Administrator has been delegated the following responsibilities for the oversight of the Fund's assets:

1. Keeping the Board informed of any significant events that impact the Fund and may recommend changes in approved policy, guidelines and objectives;
2. The day-to-day oversight of the office operations;
3. Acting as the primary contact between the Board, the members, the Managers, investment consultants, auditors, custodian, and any other parties involved in the management of the Fund's assets; and
4. Such other duties as may be described in this policy, applicable State and Federal laws, or as delegated by the Board of Trustees.

C. Investment Consultant

The investment consultant shall act solely in the best interest of the Fund. Final decision making authority and responsibility, however, resides with the Board. The investment consultant retained by the Board is a prudent expert with all the attendant duties and responsibilities and shall have the following responsibilities to the Fund:

1. To assist the Board in strategic planning for the Fund. This includes providing assistance in developing an investment policy, asset allocation strategy, and investment manager structure;
2. To provide to the Board quarterly performance measurement reports on each of the Managers and on the Fund as a whole and to assist the Board in interpreting the results;
3. To act as a liaison between Managers and the Fund, and thereby facilitate the communication of important information in the management of the Fund;
4. Shall acknowledge in writing that they are a prudent expert and fiduciary for the Fund with all attendant duties and responsibilities; and
5. Such other duties as may be mutually agreed upon.

D. Custodian

The custodian of the Fund shall have the following responsibilities:

1. To hold securities and other investments in the name of the Fund or in the name of the nominee custodian or in bearer form;
2. To collect and receive income, interest, proceeds of sale, maturities, investments, deposit of all receipts in a custodial or checking account and reinvest these receipts as directed by the Board;
3. To make disbursements and transfers as directed by the Board;
4. To maintain accounting records and assist in preparation of reports required by the Board;

5. To settle purchases and sales and engage in other transactions, including free receipts and deliveries, exchanges and other voluntary corporate actions, with respect to securities or other property received by the Custodian;
6. To manage the securities lending program, if applicable; and
7. To perform other services for the Board as are customary and appropriate for custodians.

E. Actuary

The actuary for the Fund shall have the following responsibilities:

1. To perform annual actuarial valuations to determine liability and funding requirements for the Fund;
2. To monitor the funding progress of the Fund;
3. To make appropriate recommendations regarding actuarial assumptions on a periodic basis; and
4. To perform special projects as mutually agreed.

F. Investment Managers

It is the intention of the Board to utilize separately managed accounts to implement the investment strategy of the Fund, where practical. Mutual funds or other commingled investment vehicles may also be used from time-to-time to implement the investment strategy of the Fund. The following guidelines apply to the Managers:

1. Fiduciary Responsibilities

- a) Each Manager is expected to manage the Fund's assets in a manner consistent with the investment objectives, guidelines, and constraints outlined in this statement and in accordance with applicable State and Federal laws. This would include discharging responsibilities with respect to the Fund consistent with "Prudent Expert" standards, and all other fiduciary responsibility provisions and regulations.
- b) Each Manager shall at all times be registered as an investment advisor under the Investment Advisers Act of 1940 (where applicable), and shall acknowledge in writing that they are a fiduciary of the Fund with respect to the assets they manage.
- c) Ensure that all portfolio transactions are made on a "best execution" basis.
- d) Exercise ownership rights, where applicable, through proxy solicitations, doing so strictly for the economic benefit of the Fund. Managers shall provide documentation regarding the disposition of proxy solicitations to the Board upon request.
- e) Meet with the Board as needed upon request of the Board. Quarterly reports are to be submitted in writing within 30 days after the end of each quarter.
- f) Promptly inform the Board regarding all significant matters pertaining to the investment of the Fund assets.
- g) Initiate written communication with the Board when the Manager believes that this investment policy is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and or objectives established in the Policy is permitted until after such communication has occurred and the Board has approved such deviation in writing.
- h) Reconcile performance, holdings and security pricing data with the Fund's custodian bank. In the event of a dispute, the custodian's values will be used.

2. Security Selection/Asset Allocation

- a) Except as in **Section VII Investment Manager Guidelines**, Managers shall have the discretion to determine their portfolios' individual security selections. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives.
- b) The Fund is expected to operate within the asset allocation strategy as defined by the Board. This strategy, described in Section V (B) below, sets a long-term percentage target for the amount of the Fund's market value that is to be invested in any one asset class. The allocation strategy also defined the allowable variances between the asset classes, above and below the target allocations.
- c) The Board is responsible for monitoring the aggregate asset allocation, and shall rebalance to the target allocation on a periodic basis.

IV. INVESTMENT GOALS AND OBJECTIVES

- A. The funding obligations of the Fund are long-term in nature; consequently the investment of the Fund's assets should have a long-term focus. The Fund's assets shall be invested in accordance with sound investment practices that emphasize long-term fundamentals. The investment objectives for the Fund's assets are:
 - 1. To protect the Fund's assets in real terms such that the assets are preserved for providing benefits to participants and their beneficiaries;
 - 2. To achieve returns that meet the actuarial assumptions and improve the future soundness of the Fund;
 - 3. To meet the Fund's obligations, including actuarial interest assumptions, expenses and benefit payment obligations;
 - 4. To prudently diversify the Fund's assets in order to reduce risk;
 - 5. To establish policies based on total return rather than current income, thus providing flexibility and the greatest opportunity for asset growth;
 - 6. To achieve investment results over the long-term that compare favorably with those of other public pension plans, other professional investment managers and of appropriate market indexes as determined by the Board.
- B. It is expected that these objectives can be obtained through a well-diversified portfolio structure in a manner consistent with this investment policy.
- C. The Board has adopted an overall investment objective for the Fund's assets. The objective is to earn long-term returns comprised of capital appreciation and current income sufficient to fund current benefit payments and other disbursements and maximize the assets.
- D. The Board will monitor the Fund's performance on a quarterly basis with the goal of achieving returns higher than the Policy Index. The policy or primary benchmark index will be a weighted average of the name indices by asset class defined below. A secondary performance target is inflation (U.S. All Urban Consumer Price Index, "CPI") plus 4%. The Board, with the assistance of the consultant, will evaluate each

Manager's contribution toward meeting the investment objectives outlined below on a quarterly basis.

V. ASSET ALLOCATION

A. Permissible Investments

In fulfilling the investment objectives set forth above, the Fund's assets may be invested in the following types of investments:

1. Domestic Equity Investments are permitted and may include common stocks traded over-the-counter or on a domestic stock exchange. Convertible bonds, preferred stocks, warrants and rights may be purchased as equity substitutes so long as the underlying equity meets with applicable standards. American Depository Receipts (ADRs) and dual listed foreign stocks, which are dollar denominated foreign securities traded on domestic U.S. stock exchanges, may be held by each domestic equity Manager to a maximum of 10%. A Manager should not purchase securities for the Fund unless the Manager has determined that the securities to be purchased are of a quality suitable for the account.
2. Domestic Debt Securities are permitted and may include U.S. Government and Agency obligations, corporate bonds, municipal bonds, asset backed securities, mortgage back instruments including agency guaranteed mortgage pass-through securities and low risk collateralized mortgage obligations of comparable or lower risk, such as Planned Amortizations Class Level 1 and Sequentials, commercial paper, certificates of deposit. Managers may also invest in U.S. dollar denominated issues of international agencies, foreign governments and foreign corporations (i.e., Eurodollar and Yankee bonds).
3. International Investments are permitted and may include equity and fixed income securities denominated in US Dollars as well as foreign currency. Investments denominated in foreign currency may be hedged or unhedged at the discretion of the Manager through the use of forward foreign currency exchange transactions which are specifically permitted for use in hedging investments. International investments shall only be entered into through the selection of a qualified investment management organization as consistent with fiduciary responsibilities. An international Manager employing an active currency management program may, upon specific authorization of the Board, deal in futures and options within the discipline of that currency management program.
4. Real estate investments are permitted and may include both debt and equity investments. The Trustees may invest in real estate by appointing a registered Investment Manager or by utilizing pooled accounts, limited liability companies, partnerships or group trusts. Investments may include Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOCs), and mutual funds composed of REITs and REOCs.
5. Cash Equivalents and other short-term funds are permitted and may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements, which are fully collateralized by U.S. Treasury issues. Unless expressly prohibited by the Board, excess cash may be invested in the Short Term Investment Fund of the Custodian Bank(s) or negotiable certificates of deposit, or other short-term investment vehicles designated by the Board.

6. Futures and Options strategies may be employed, upon specific authorization of the Board. Equity and Fixed Income Managers may utilize specific derivative investment to provide volatility protection or enhance the rate of return.
7. Commingled funds and/or institutional mutual funds may be used as investment vehicles. The Board recognizes that it cannot give specific policy directives to a fund (whose policies are already established). Therefore, the Board understands that investments in commingled or mutual funds shall be managed in accordance with the objectives, policies, and restrictions set forth in the commingled fund's guidelines or mutual fund's prospectus. For mutual and other commingled funds, the prospectus or Trust documents of the fund(s) will govern the investment policies of the fund investments. Investment managers, however, shall be guided by the general principles and constraints outlined in this investment policy.
8. Notwithstanding the foregoing, in addition to managed assets, the Fund may invest in closed-end-limited partnerships so as to diversify by investment type and strategy. The types of partnerships may include: (1) private equity funds: funds which provide equity capital to professional investment teams with the ability to take control of companies, add value to the companies, and after several years realize that value, (2) mezzanine finance funds: funds which provide subordinated debt capital with high coupons and equity warrants or options, and realize both the interest from the coupons and a portion of the growth of the equity,(3) pooled funds of the foregoing.

B. Target Asset Mix

The Board, after due diligence, has adopted an asset allocation as outlined below. Consistent with the Fund's return objectives and risk parameters, the mix of assets for the Fund should be maintained as follows (percentages are of the market value of the Fund):

Asset Class	Target	Permissible Range
Equity	56.5%	50.0-63.0%
Opportunistic	9.0%	5.0-13.0%
Large Cap	12.5%	7.5-17.5%
Mid Cap	10.0%	5.0-15.0%
Small Cap	10.0%	5.0-15.0%
Global/International	15.0%	10.0- 20.0%
Fixed Income	20.0%	15.0-25.0%
Domestic/High Yield	20.0%	15.0-25.0%
Alternative Investments	20.0%	15.0-25.0
Private Equity	10.0%	5.0-15.0%
Real Estate	6.0%	4.0-8.0%
Special Situations/Other	4.0%	0.0-6.0%
Cash	3.5%	0 – 5%

1. Small temporary variations may occur. The maximum percentage designated for the "Cash and Cash Equivalents" category is intended to apply after the initial start-up of any one portfolio within the Fund. The Board recognizes that this

initial start-up period to become fully invested could be as long as three months after the initiation of a portfolio.

2. Investment managers shall be as fully invested as is possible, realizing that there will be residual cash in portfolios from time to time subject to limits as described in the attachments.
3. To reduce business risk, no single investment firm shall comprise more than 45% of the total portfolio.

C. Rebalancing Procedures

1. The allocation to each asset class and to investment styles within asset classes is expected to remain stable over most market cycles. Since capital appreciation (depreciation) and trading activity in each individually managed portfolio can result in a deviation from the overall Fund's asset allocation, the aggregate asset allocation will be monitored and the Board will rebalance periodically. It is expected that rebalancing will occur semi-annually. The Administrator will notify Managers well in advance of withdrawals to allow sufficient time to provide liquidity.
2. The Board must be advised of any pending rebalancing activity and must approve the action. To achieve the rebalancing of the Fund, the Retirement Administrator, in consultation with the Fund's investment consultant, may redirect contributions and disbursements from individual investment managers as appropriate, in addition to shifting assets from one investment manager to another.

VI. MANAGER SELECTION CRITERIA

- A.** Managers retained by the Board shall be chosen based on, but not limited to, the following criteria:
1. The investment style and discipline of the Manager and/or fund and how well the manager's investment style or approach complements other assets in the Fund,
 2. Past performance, considered relative to other Managers having similar investment styles including both consistency of performance and the level of risk taken to achieve results,
 3. Level of experience, financial resources, and staffing levels of the Manager
 4. An assessment of the likelihood of future investment success, relative to other opportunities.
- B. Investment Manager Structure**
1. The Fund will utilize a multi-manager structure of complementary investment styles and asset classes to invest Fund's assets, as described in the attachments.

VII. INVESTMENT MANAGER GUIDELINES

A. General

1. Full discretion shall be granted to the Managers regarding the asset allocation, the selection of securities, and the timing of transactions, within the parameters of the objectives and guidelines described herein.

2. While the Board is sensitive to excessive turnover, there shall be no specific limitation in this regard, recognizing the importance of providing flexibility to the Manager(s) to adjust the asset mix in changing market conditions.
3. The flexible management of the portfolio is permitted, and while the Board is appropriately sensitive to book losses, there is no justification to hold a particular security, or to manage the collective assets, for the principal purpose of avoiding the recognition of a book loss.
4. Compliance with all guidelines must be monitored by the Managers on a regular basis (monthly or more frequently when unusual market conditions warrant) and based on then current market values. In the event that the portfolio moves out of compliance with these guidelines (as identified in the Manager's regular review of the portfolio), through market conditions or other changes outside the control of the Manager, the Manager must
 - a) bring the portfolio composition into compliance within 45 days from the first date that the portfolio moved out of compliance, or
 - b) make a written request to the Board for a compliance waiver.Should a Manager receive an investment not permitted or specifically prohibited by this Investment Policy Statement as the result of a corporate action, bankruptcy, conversion, exchange or reorganization of an otherwise permissible investment, the Manager will contact the Board and its investment consultant in writing promptly. The Manager will provide information on the receipt of such instrument and its plans for disposition of the instrument.
5. Managers shall make all portfolio transactions on a "best execution" basis. Arrangements to direct commissions shall only be implemented by specific authorization of the Board.
6. The manager is to calculate investment fees based on the custodian's market value of assets and the other terms agreed upon within the investment management contract. In the event of an unreconciled difference in asset value at the end of a billing period, the custodial value will be used for the calculation of fees.

B. Prohibited Investments

The Fund's assets in separately managed accounts may not be used for the following purposes:

1. Short Sales
2. Purchases of letter stock, private placements (except for 144A securities), or direct payments
3. Leveraged transactions other than real estate and private equity
4. Purchases of securities not readily marketable
5. Commodities transactions
6. Puts, calls, straddles, or other option strategies, except where permitted
7. Purchases of oil and gas properties or other natural resources related properties
8. Investment in tax-exempt securities
9. Investment in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement
10. Investments by the Managers in their own securities, their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized by the Board)

11. Purchases of mortgage securities whose payment represents the coupon payments on the outstanding principle balance of the underlying mortgage-backed securities and pays no principal (e.g. interest only securities)
12. Purchases of mortgage securities whose payment represents the principal balance of the underlying mortgage-backed security and pays no interest (e.g. principal only securities)
13. Purchases of mortgage securities whose payment of interest is determined by an index opposite to the changes in a market index (e.g. inverse floaters)
14. Requests by Managers to execute transactions that are not currently authorized in this policy must be made in writing to the Board for approval prior to executing such transactions
15. For mutual funds and other commingled funds, the prospectus or Trust documents of the fund(s) will govern the investment policies of the Fund's investments, as outlined in Section V (A) (7)

C. Derivative Policy

A derivative is a security or contractual agreement, which derives its value from some underlying security, commodity, currency, or index.

1. Types of Derivative Contracts
 - a) Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments
 - b) Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments.
2. Types of Derivative Securities
 - a) Collateralized Mortgage Obligations (CMOs)
 - b) Structured Notes
3. The use of derivative securities is permitted as described under Section V (A) (2)
4. Where appropriate, Managers may use derivative contracts for the following reasons:
 - a) Hedging: To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross hedging of currency exposures.
 - b) Creation of Market Exposures: Managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the Manager allow for such exposures to be created with the underlying assets themselves.
5. By way of amplification, it is noted that the following two uses of derivatives contracts and securities are prohibited:
 - a) Leverage: Derivatives shall not be used to magnify overall portfolio exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used.
 - b) Unrelated Speculation: Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

D. Domestic Equity Managers

1. Equity Managers will be expected to manage their holdings in order to maximize net long-term returns. It is contemplated that equity specialist Managers shall normally be fully invested, maintaining a 90-100% equity commitment level.
2. No individual portfolio shall hold more than 5% of its assets or 1.25 times the index's weight, whichever is greater, in the securities of any single entity. For those securities where more than 5% is allowed, these securities shall be limited to an absolute maximum of 8% of the portfolio. Issues of the U.S. Government and its Agencies and mutual funds are not subject to any of these limits.
3. No purchase shall be made, which would cause a holding to exceed 5% of the market value of the issue outstanding.
4. There shall be no short selling, securities lending, use of financial futures or other specialized investment activity.
5. Equity Managers may invest up to 10% of their portfolio holdings in reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall reasonably carry the equivalent of S&P A1 or Moody P-1.

E. Domestic Fixed Income Managers

1. Fixed-income securities are to be selected and managed to ensure appropriate quality and maturity exposure, consistent with these guidelines and current market and economic conditions. "Active" bond management (i.e., over- or underweight sectors, securities, maturities, duration relative to benchmark) is encouraged, as deemed appropriate by the Managers. Fixed income specialist may vary the bond commitment from 90-100% of assets under their discretion.
2. The overall average quality rating of each high-grade portfolio shall be at least AA or equivalent rating. If an issue is split-rated, it will be governed by the lower quality rating. If an issue is unrated the rating determined by the Manager will be used.
3. The diversification of securities by maturity, quality, sector and coupon is the responsibility of the Manager.
4. No security, excepting issues of the US Government or its agencies or mutual funds, shall comprise more than 5% of the Manager's total portfolio of assets, measured at market. Further, no individual portfolio shall purchase more than 5% of its assets in the securities of any single issuer, excepting issues of the US Government or its agencies. (For mortgage-backed securities, an issuer is defined as a separate trust.)
5. CMBS securities may be held in the portfolio and should have a NRSRO quality rating of no less than BBB from each of these rating services. (For an issue, which is split-rated, the lowest quality designation will govern). The weighting to CMBS securities of an actively manage portfolio shall not exceed 10%.
6. The Manager may use interest rate futures for the purpose of managing (hedging) the duration of the fixed income portfolio. The use of futures is expressly allowed by the Investment Policy Statement (IPS) (Section VII C.4.a.). There shall be no other use of options, financial futures, or other specialized investment activity without the prior written approval of the Board.

F. High Yield Managers

1. High yield securities are to be selected and managed to ensure appropriate quality, industry, and maturity exposure, consistent with these guidelines and current market and economic conditions.

2. The overall average quality of the high yield portfolio shall be at least CCC- or better.
3. The diversification of securities by maturity, quality, sector and coupon is the responsibility of the Manager.
4. No security, excepting issues of the US Government or its agencies or mutual funds, shall comprise more than 2.5% of the Manager's total portfolio of assets, measured at market. Further, no individual portfolio shall purchase more than 5% of any single issuer, excepting issues of the US Government or its agencies. (For mortgage-backed securities, an issuer is defined as a separate trust.)

G. Opportunistic Managers

1. Opportunistic managers have a limit of 40% high yield.
2. Average quality limitation will be BBB-/Baa3 or higher and have permission to invest in securities rated CC-/Ca3 and higher.

H. Global Equity Managers

1. Global Equity Managers will be expected to manage their holdings in order to maximize net long-term returns. It is contemplated that equity specialist Managers shall normally be fully invested, maintaining a 90-100% equity commitment level.
2. Decisions as to the number of issues held and their geographic distribution shall be left to the Manager provided that equity holdings in any one company, excluding mutual funds, do not exceed 5% of the market value of the Manager's portion of the Fund's portfolio without the written consent of the Board.
3. Global Equity Managers may invest up to 10% of their portfolio holdings in reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Short-term reserves may be held in U.S. dollar denominated securities or investment vehicles available through the Fund's custodian.
4. Managers may employ an active currency management program and deal in futures and options within the disciplines of that currency management program subject to the derivatives guidelines set forth in Section VII (C) Derivatives Policy.

H. International Equity Managers

1. International equity securities are expected to be issued by non-U.S. corporations, although the Manager has latitude to hold U.S. securities provided that such investments are consistent with attainment of the portfolio's investment objective and are limited to 10% of the portfolio.
2. These portfolios should be considered as "equity funds" and shall normally be fully invested, maintaining a 90-100% equity exposure.
3. Short-term reserves may be held in U.S. dollar denominated securities or investment vehicles available through the Fund's custodian.
4. Decisions as to the number of issues held and their geographic distribution shall be left to the Manager provided that equity holdings in any one company, excluding mutual funds, do not exceed 5% of the market value of the Manager's portion of the Fund's portfolio without the written consent of the Board.
5. Managers may employ an active currency management program and deal in futures and options within the disciplines of that currency management program

subject to the derivatives guidelines set forth in Section VII (C) Derivatives Policy.

I. Private Equity Managers

In addition to managed assets, the Fund may invest in closed-end-limited partnerships so as to diversify by investment type and strategy. The types of partnerships may include: (1) private equity funds: funds which provide equity capital to professional investment teams with the ability to take control of companies, add value to the companies, and after several years realize that value, (2) mezzanine finance funds: funds which provide subordinated debt capital with high coupons and equity warrants or options, and realize both the interest from the coupons and a portion of the growth of the equity,(3) pooled funds of the foregoing. Reporting and other provisions of these investments will be addressed in the partnership agreements with these fund managers.

VIII. PERFORMANCE EVALUATION

A. General Guidelines

1. The Board will monitor the Fund's performance on a quarterly basis and will evaluate the Fund's success in achieving the investment objectives outlined in this document over an appropriate time horizon. The Board realizes that most investments go through cycles; therefore, interim fluctuations should be viewed within the long-term perspective.
2. The Fund's (and investment manager's) performance should be reported in terms of rate of return and changes in dollar value. The returns should be compared to market indices and peer group universes pre-determined by the Board, for the most recent quarter and for annual and cumulative prior time periods. Investment managers will also be compared to a universe of peers that manage the same asset class and style. Managers are expected to perform in the top half of their peers over a market cycle. In addition, the Board will compare the annual returns for the total fund to the long-term returns projected by the aggregate asset allocation model.
3. The Fund's asset allocation in separately managed accounts and the allocation to each commingled fund should also be reported on a quarterly basis. For the purposes of calculating the asset allocation of the Fund as a whole, the asset allocation of each portfolio shall be assumed to be fully invested in the policy index to which it is compared.
4. Risk as measured by volatility, or standard deviation, should be evaluated after twelve quarters of performance history and periodically thereafter. Performance dispersion of each individual manager relative to other managed accounts of a similar style will be assessed from time-to-time. Such assessments will take into account the nature of the investment manager's style, portfolio constraints, and the market environment.

B. Manager Performance Standards

Asset Category	Market Index	Peer Group
Cash Equivalents		
Cash	91-Day U.S. Treasury Bills	Cash

<u>Fixed Income</u> Intermediate Core High Yield	Barclays Intm. Govt/Credit Barclays U.S. Aggregate ML High Yield Master II	Intm. Fixed Income Core Fixed Income High Yield
<u>Large Cap</u> Core Growth Value	Russell 1000 Russell 1000 Growth Russell 1000 Value	Large Cap Core Large Cap Growth Large Cap Value
<u>Mid Cap</u> Core Growth Value	Russell Mid Cap Russell Mid Cap Growth Russell Mid Cap Value	Mid Cap Core Mid Cap Growth Mid Cap Value
<u>Small Cap</u> Core Growth Value	Russell 2000 Russell 2000 Growth Russell 2000 Value	Small Cap Core Small Cap Growth Small Cap Value
<u>Global/International Equity</u> Core International Core Global	MSCI EAFE (Net) MSCI All Country World (Net)	International Equity Global Equity
<u>Private Equity</u>	Based on Strategy	Based on Strategy
<u>Real Estate</u>	Based on Strategy	Based on Strategy

C. Manager Probation and Termination

1. The Board recognizes the importance of a long-term focus when evaluating the performance of Managers. The Board understands the potential for short-term periods when the performance of individual managers may deviate from the performance of representative market indexes. The Board, has determined however, that the following events or circumstances shall place the manager on probationary status:
 - a) Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account,
 - b) Any material client servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section IX of this investment policy,
 - c) Risk-adjusted performance of the Manager's portfolio is less than the Manager's prescribed market index over a rolling three year period,
 - d) Performance of the Manager ranks in the bottom-quartile of representative peer group universes for two consecutive quarters. The Board shall determine peer group universes with input from the consultant and the manager.
2. When Manager has been placed on Probationary Status, the Board shall notify them in writing and they will appear at a meeting as designated by the Board. The Board shall review the circumstances of probationary status to determine whether the Manager may be removed from probation, continued on probation for another two quarters, or terminated. The Board reserves the right to take action at any time, with or without cause.

IX. MANAGER REPORTING REQUIREMENTS

A. As Necessary (based on occurrence)

Managers are expected to promptly inform the Board and consultant regarding all significant matters pertaining to the investment of the Fund's assets. These include, but are not limited to the following:

1. Changes in investment strategy, portfolio structure and market value of assets managed.
2. Any regulatory actions or legal proceedings, including investigations, litigations and disciplinary actions brought about by the Securities and Exchange Commission (SEC), any securities regulatory body, any securities exchange or any relevant governmental body or agency.
3. Changes in ownership affiliations, organizational structure, financial condition, professional staffing and clients.
4. Material changes in the liquidity of the securities held in the portfolio.

B. Monthly

Each manager is required to provide the Board with an Accounting Statement. This report should include the market value of the assets held on behalf of the Fund and all transactions that occurred during the period.

C. Quarterly

Each investment manager may be required to provide the Board with quarterly investment reports that include the following information:

1. Summary of Investment Guidelines
2. Investment strategy used over the past year and underlying rationale.
 - a) Evaluation of strategy's success/disappointment.
3. Comment on the current liquidity of the portfolio and the market(s) in which the portfolio is invested. For managers holding mortgage-backed securities, results of current 'stress' tests on the portfolio, indicating how the manager believes it would respond to interest rate movements up or down. For managers holding securities with forward delivery dates, an accounting of the cash needed to retire such securities.
4. Performance Review

The following quarterly reporting requirement shall apply to all managers

 - a) Present total fund and asset class returns for last calendar quarter, year-to-date, last year, last three years, last five years and since inception versus designated benchmarks. All performance data shall be in compliance with GIPS (Global Investment Performance Standards).
 - b) Discuss performance relative to benchmarks.
 - c) Provide portfolio characteristics relative to benchmarks.
5. Portfolio Holdings
 - a) Present book value and current market value
 - b) List individual securities by sector, asset class, or country, as appropriate.
6. Derivatives Review

Each Manager that invests Fund's assets in derivatives contracts or securities shall also prepare a quarterly report on the following information:

 - a) All derivatives positions as of quarter-end.
 - b) An assessment of how the derivatives positions affect the risk exposure of the total portfolio.
 - c) An explanation of any significant pricing discrepancies between the Manager and the custodian bank.

D. Annually

1. Compliance
 - a) A statement certifying compliance with the investment policy guidelines throughout the year; or, if the portfolio has been out of compliance, an explanation.
2. Proxy Voting
 - a) The Board shall delegate responsibility for the exercise of ownership rights through proxy voting to the Managers, who shall exercise this responsibility strictly for the economic benefit of the Fund and its participants and in accordance with PA 314. Managers may be required to report to the Board standing policies with respect to proxy voting, including any changes that have occurred in those policies. Additionally, Managers may be required to provide a written annual report of the proxy votes for all shares of stock in companies held on the Fund's behalf. These reports shall specifically note any instances where proxies were not voted in accordance with standing policy.
3. Commissions & Trading Costs
 - a) The annual commission report may be required to be delivered to the Board, staff, and consultant within forty-five (45) days of the end of each calendar year. The report should cover all trades executed during the prior calendar year.
 - b) Each annual commission report should include the following:
 - i. Commission Expense: Provide a review of the portfolio's actual commission expense over the prior year. At a minimum, this should be broken down by broker and include average commission per share, total shares traded, total commission expense, and total trading volume.
 - ii. Transaction Cost Analysis: If the Manager has a Fund for monitoring total transaction cost, commissions plus market impact, a copy of this analysis should be provided.

X. IMPLEMENTATION

All monies invested for the Fund by its Managers after the adoption of this statement shall conform to this Investment of Objectives Policy and Guidelines.

XI. APPROVAL

It is understood that this investment policy is to be reviewed periodically by the Board to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, changes in the Fund or changes involving the investment managers.

Chairman, Board of Trustees

Date