

Commonwealth of Pennsylvania Public School Employees' Retirement System

DATE: January 4, 2012

SUBJECT: Investment Policy Statement, Objectives and Guidelines

TO: Members of the Board

FROM: Joseph W. Sheva, CPA
Senior Investment Professional - External Public Markets, Risk & Compliance

At the January Finance Committee meeting, we will ask the Committee to adopt the Investment Policy Statement, Objectives, and Guidelines (IPS), as revised, as well as the following addendum:

<u>Addendum</u>	<u>Addendum Title</u>
X3	Private Markets and Real Estate In-House Co-Investment and Secondary Investment Policy

The addendum above is a new Policy to be presented by the Managing Director of Private Markets and Real Estate.

The substantive changes to the IPS have been black lined for your convenience and are outlined below.

1. Section I. Investment Policy Statement: Policy Regarding Placement Agents section was updated to clarify offset of placement agent related charges and additional reporting requirements.
2. Section II. Investment Manager Objectives and Guidelines: Insurance section was updated to clarify the External Portfolio Manager's role in communicating any cancellation or material policy change, and liability language was added in the event the manager fails to provide required notice.
3. Removed Exhibits E and F, Letter of Understanding – Private Markets and Letter of Understanding – Hedge Funds respectively. Due to the dynamic nature of these letters, and the fact that the letters are crafted from the Investment Policy Statement, including these letters in the IPS was deemed to be redundant.
4. The following changes were made to Exhibit E - Public Markets Emerging Investment Manager Program Policy.
 - a. Broadened the program AUM criteria for fixed income firms allowing firms with AUM of up to \$3.0 billion AUM when hired and no more than \$6.0 billion total AUM before being considered to big for the program. The change was made based on Wilshire's compilation of firm AUMs within their database. The Program's AUM criteria approximates capturing the smallest quartile of managers, based on AUM, within Wilshire's database.
 - b. Increased individual investment manager allocations from \$75 million to \$100 million. The change was made to allow for greater allocations to managers within the Program.

If you have any questions or comments, please contact me at 717-720-4632.

- Indemnification contract language; and,
- Sample side letter language.
- The prospective general partner shall also complete an investment questionnaire ~~for~~ provide detailed information to IOS and the specialty Investment Consultant that includes:
 - Performance history of the organization and partners
 - Fund strategy
 - History of the organization and partners
 - References
- The prospective general partner shall also meet with the appropriate specialty Investment Consultant.
- Following both meetings, IOS and the specialty Investment Consultant shall make a determination about whether to proceed.
- ~~If it is decided~~ IOS and the specialty Investment Consultant agree to proceed, then (1) the specialty Investment Consultant shall perform detailed due diligence into the prospective fund, (2) IOS may have a follow-up meeting with the general partner, and (3) IOS will complete its due diligence, including a meeting at the general partner's office.
- The goal of the due diligence process is to determine whether to recommend that the System invest in the prospective fund based on the composition of the investment team (including ethical evaluation), verification of past performance, analysis of the process, style, strategy, etc. All factors evaluated will be used in assessing the potential strengths and weaknesses of the prospective fund.
- If IOS decides to invest in the prospective fund, then DPMRE, or other IOS designated by the DPMRE enters contract negotiations with the general partner.
- Assuming acceptable terms are agreed upon, DPMRE will make a presentation to the Finance Committee. The Finance Committee and the Board are required to approve the investment prior executing a contract with the prospective fund.

PMEIM Program

The PMEIM Program is administered internally by the EMPM. The PMEIM Program Policy has been approved by the Board in a separate document entitled "Public Markets Emerging Investment Manager Program Policy of The Commonwealth of Pennsylvania Public School Employees' Retirement System" (**Exhibit GE**).

Prospective firms are brought to the attention of the EMPM through other institutional investors, financial publications, word-of-mouth, contact directly by the Investment Manager, or the results of screening a database. The EMPM will start the due diligence process on firms that meet the System's required characteristics and qualifications as follows:

- Contact the Investment Manager to have it give a presentation of its product;
- Evaluate prospective Investment Manager based on, among other considerations, philosophy, methodology, past performance, ethical standards; and,
- Perform an on-site visit at the Investment Manager's place of business.

The administration of this Program is more fully documented in Exhibit GE.

Termination of Investment Managers

The CIO, after ~~receiving~~with concurrence from the Executive Director and the Chair of the Finance Committee and ~~notifying~~notification of the Board, has authority to terminate an Investment Manager, except a PMEIM Program Investment Manager, for any reason, including, but not limited to, poor performance, personnel changes, organizational changes, deviation from their investment style, compliance violations, and the need for liquidity. Notwithstanding the preceding, any individual Board member has the right to request to have ~~the~~ termination decision listed on the agenda of the next scheduled Finance Committee meeting for discussion and concurrence by the Finance Committee. Pending said Finance Committee meeting, no action shall be taken by the CIO to terminate the Investment Manager. The CIO shall inform the Board of the status of the termination at the next scheduled Board meeting. Upon the termination of any Investment Manager, the CIO has the authority to reinvest the proceeds from the terminated Investment Manager with any remaining Investment Manager(s) previously approved by the Board and/or keep the proceeds in the System's cash management account consistent with the Asset Allocation.

PMEIM Program Investment Managers may be terminated for any reason, including, but not limited to, poor performance, personnel changes, organizational changes, deviation from their investment style, and compliance violations. In addition, PMEIM Program Investment Managers whose assets under management exceed ~~the maximum allowable per the Policy~~\$3 billion are no longer eligible for participation in the PMEIM Program and must either be terminated or, with the approval of the ~~DEPMDCIO~~CIO, Finance Committee, Board, and General Investment Consultant may be transferred out of the PMEIM Program to the main investment program. The EMPM must receive approval to terminate a PMEIM Program Investment Manager from the ~~DPMRE, the CIO, and the Executive Director~~EMPM's supervisor and the CIO.

Policy Regarding Placement Agents

A. Scope

This policy is intended to apply broadly to all of the types of External Portfolio Managers, including without limitation, investment advisors or managers, Separate Account managers, general partners, and any other entities or persons that manage funds or assets for or on behalf of the System. The Board believes that the disclosure of Placement Agent relationships, compensation, and fees paid by all External Portfolio Managers helps to prevent impropriety or the appearance of impropriety and provides transparency to the investment process.

B. Policy

External Portfolio Managers shall not ~~cause the Board to bear directly or indirectly charge or pass on any Placement Agent fee or expense, finder's fee, or any similar fee or expense to the Board, regardless of whether or not the Board receives a credit or offset for such payments against other fees or expenses chargeable to the Board regardless of whether a Placement Agent was used in connection with either an investment by the Board or with an investment by any other investor. In the event that the External Portfolio Manager passes on any such fee or expense to the Board, the External Portfolio Manager shall immediately provide a dollar-for-dollar offset against the management fee or other form of remuneration that the External Portfolio Manager charges to the Board until the full amount of such fee is offset.~~

C. Disclosures

Prior to being considered by the Board for retention, each External Portfolio Manager shall provide the following disclosures related to Placement Agents:

- A statement as to whether or not the External Portfolio Manager or any of its principals, employees, agents, or affiliates has compensated or agreed to compensate, directly or indirectly, any person or entity to act as a Placement Agent in connection with any investment by the Board;
- If a Placement Agent was retained in connection with any investment by the Board, then the following additional disclosures ~~are~~may be required by PSERS:
 - ⇒ a resume for each officer, partner, or principal of the Placement Agent (and any employee providing similar services) detailing the person's education, professional designations, regulatory licenses, and investment and work experience, with a section that specifically notes whether such person is a current or former Board member or PSERS employee or Investment Consultant, or a member of the immediate family of any such person;
 - ⇒ a description of any and all compensation or other consideration of any kind provided or agreed to be provided to a Placement Agent, including the nature, timing, and value thereof. Compensation to Placement Agents applies only to compensation to third parties who are retained to solicit investments or who are paid based upon investment commitments secured by such third parties;
 - ⇒ a description of services performed or to be performed by the Placement Agent with respect to the investment by the Board;
 - ⇒ a statement as to whether the Placement Agent is utilized by the External Portfolio Manager with all prospective clients or only with a subset of the External Portfolio Manager's prospective clients;
 - ⇒ a copy of any and all agreements between the External Portfolio Manager and the Placement Agent;
 - ⇒ the names of any current or former Board members, Staff, or Investment Consultants who suggested the retention of the Placement Agent;
 - ⇒ a statement as to whether the Placement Agent or any of its affiliates are registered with the Securities and Exchange Commission, the Financial Industry Regulatory Association, or any similar regulatory agency in a country other than the United States. The statement should include the details of such registration or an explanation of why no registration is required;
 - ⇒ a statement as to whether the Placement Agent or any of its affiliates is registered as a lobbyist with any state (and if so, include a listing of the states) or national government; and
 - ⇒ any other information deemed pertinent and requested by Board members or Staff.

D. Contracts

The contract between the System and External Portfolio Manager shall include one of the following provisions based on applicability:

- If a Placement Agent has been used in connection with either an investment by the Board or any other investor, a provision that the External Investment Manager shall not cause the System to bear shall not pay (directly or indirectly) any Placement Agent fee or expense, finder's fee, or any similar fee or expense and, fees, compensation, or

expenses for any Placement Agent used by the External Portfolio Manager in the event that any such fee or expense is passed on to PSERS, the External Portfolio Manager shall immediately provide a dollar-for-dollar offset against the management fee or other form of remuneration that the External Portfolio Manager charges to the Board until the full amount of such fee or expense is offset; or

- If a Placement Agent has not been used in connection with an engagement for services or an investment by any investor, an express, written confirmation that the External Portfolio Manager:

⇒ did not use a Placement Agent or pay a finder's fee or placement fee pay any Placement Agent fee or expense, finder's fee, or any similar fee or expense in connection with an the engagement for its services or the investment by the Board or any other investor, and

⇒ shall not in the future enter into a fee sharing arrangement, agreement to pay a placement Placement Agent fee or expense, finder's fee or any similar fee or expense arrangement with any third parties in connection with the engagement for its services or an investment by the Board or any other investor and, in the event that any such fee or expense is paid at any time, the External Portfolio Manager shall promptly make the disclosures to PSERS required by this policy regardless of whether any such fee is charged or passed on to the Board.

E. Changes

External Portfolio Managers are required to provide an update of any changes to their representations any of the information and practices that are pertinent to this policy specified above within five business days of the occurrence of the change in information, and any such change shall immediately be subject to the requirements of this policy. An External Portfolio Manager is required to represent and warrant the accuracy of the information required by this policy each time this policy is signed by the External Portfolio Manager.

F. Remedies

Any material omission or inaccuracy by the External Portfolio Manager shall result in the following:

- PSERS shall have the right to claim reimbursement or payment by the External Portfolio Manager of an amount at least equal to the greater of the management or advisory fees paid to the External Portfolio Manager by PSERS for the previous two years and an amount equal to the amounts paid or promised to be paid to the Placement Agent by the External Portfolio Manager.
- To the extent that PSERS has the right to terminate its agreement with the External Portfolio Manager, PSERS shall have the discretion to immediately terminate the agreement without penalty.
- In the case of limited partnerships, limited liability companies, and other commingled investment vehicles in which PSERS does not have unilateral termination rights, PSERS shall have the discretion to cease making further capital contributions for new

investments (and paying fees on uncalled commitments) to the limited partnership, limited liability company, or other investment vehicle, but shall remain responsible for payments relating to existing investments.

- In the event that PSERS is subject to lockup terms, PSERS shall have the discretion to immediately redeem its interest from the fund without penalty and without regard to such lockup terms.
- ~~Reimbursement or payment by the External Portfolio Manager of an amount at least equal to the greater of the management or advisory fees paid to the External Portfolio Manager by the System for the previous two years or an amount equal to the amounts paid or promised to be paid to the Placement Agent by the External Portfolio Manager; and~~
- ~~The System shall have the right, in its sole discretion, to immediately terminate its agreement with the External Portfolio Manager without penalty, to withdraw without penalty from the limited partnership, limited liability company or any other investment vehicle, or to cease making further capital contributions (and paying fees on uncalled commitments) to the limited partnership, limited liability company, or other investment vehicle.~~

Securities Lending Program

The State Treasurer has entered into a contract with the Custodian Bank to manage a Securities Lending Program on behalf of the Commonwealth. The Board approves participation in the Custodian Bank's Securities Lending Program subject to the Board approved portfolio specific guidelines, Addendum Z - Securities Lending Objectives and Guidelines.

Derivatives Policy

Objective and Investment Standards

The Board's objectives for using derivatives are to manage and/or reduce the Risk of the overall investment portfolio in an efficient manner. Through the use of derivatives, the complex Risks that are bound together in traditional cash market investments can be separated and managed independently. If used appropriately, derivative contracts can be a productive component of an investor's portfolio by reducing Risk and/or providing a cheaper, more efficient way to obtain market exposure or to expand the opportunity set in which qualified investment managers seek to add value.

Permitted Uses of Derivatives

Consistent with the objectives set out in this Policy, derivative applications may be used by Investment Managers engaged to manage the asset allocation and/or Separate Account portfolios to:

- Implement investment strategies in a lower cost and more efficient manner;
- Implement overlay strategies in search of alpha (i.e. excess return);
- Replicate the return of a passive benchmark (i.e. market return);
- Efficiently manage the Asset Allocation by altering the System's market exposure (Systematic or Market Risk) in lieu of trading the underlying cash market securities through purchases or short sales, or both, of appropriate derivatives;

Mutual/Commingled Funds and Unit Investment Trusts

Mutual funds (both closed and open-ended), Commingled Funds, Unit Investment Trusts, ETFs, or any equivalent fund type funds are prohibited investment vehicles without the written express permission of the CIO or the DEPMDCIO in the CIO's absence.

Market-Driven Breaches

The System recognizes that the portfolio will always be subject to fluctuations in market value. Market-driven breaches of the guidelines (breaches that occur due to market fluctuations) shall not be considered a violation of the guidelines as long as the Investment Manager corrects these breaches within 10 business days of the breach (unless an extended period of time is granted elsewhere in the guidelines and/or written permission is received from the CIO providing an extended period of time). Active breaches (breaches that occur due to purchase and sale activity) shall be considered a violation of the guidelines and must be corrected as soon as prudently possible. Consistent patterns of active breaches may be cause for termination.

Insurance

External Investment Managers managing Separate Accounts are required to carry both errors and omissions (E&O) insurance and fidelity bond coverage. The insurer from which the Investment Manager obtains coverage must have a financial strength rating of A- or better and a financial size category rating of VII or higher, both by A.M. Best. The fidelity bond must name the Board as either a loss-payee or additional insured party. ~~Both the E&O coverage and fidelity bond must provide that the Board be given at least 30 days notice prior to any cancellation or policy change. In the event that either the Investment Manager's insurance carrier refuses to agree in writing to provide such notice to the Board after commercially reasonable efforts by the Investment Manager or the Investment Manager's insurance carrier expressly disavows liability for its failure to provide such notice, the Investment Manager shall assume said duty, as well as liability to PSERS for losses resulting from its failure to provide such notice. To the extent that such terms can be obtained, both the E&O insurance and fidelity bond should contain a provision or endorsement that the insurance carrier shall provide the Board with written notice at least 30 days prior to any cancellation or material policy change. In the event that either (i) the External Investment Manager's insurance carrier refuses to agree in writing to provide such notice after best efforts by the External Portfolio Manager or (ii) the External Portfolio Manager's insurance carrier expressly disavows liability for its failure to provide such notice, the External Portfolio Manager shall assume the duty to provide such notice to the Board. In the event that the External Portfolio Manager fails to provide such notice, the External Portfolio Manager shall be liable to the System for losses incurred by the Board that could have been covered by E&O insurance or a fidelity bond but for the cancellation or change of coverage. Insurance coverage may be in the name of the Investment Manager's parent organization as long as the Investment Manager is named in that policy or bond as an insured party.~~

~~The Investment External Portfolio Manager is required to maintain E&O coverage amounting to at least 1 percent of assets under management for the System. The Investment External Portfolio Manager must maintain a fidelity bond coverage amounting to at least 0.5 percent of cumulative assets under management for the System. The minimum amount of E&O and fidelity bond coverage shall be \$500,000. The maximum deductible on~~

both the Errors and Omissions coverage and the Fidelity Bond must be either: (a) no greater than \$500,000 if the Investment External Portfolio Manager has less than \$1 billion in firmwide assets under management and no greater than \$1 million if the Investment External Portfolio Manager has \$1 billion or more in firmwide assets under management, or (b) no greater than 10 percent of the Investment External Portfolio Manager's retained earnings (equity) as disclosed in the Investment External Portfolio Manager's annual audited balance sheet which must be provided to the Board annually in a timely fashion.

For purposes of evaluating the sufficiency of insurance coverage, the System considers coverage and deductible amounts of the parent company when applicable.

Derivatives

Unless written permission is obtained from the CIO, or the DEPMDCIO in the CIO's absence, or unless otherwise specified in the portfolio specific guidelines, derivative investments, including but not limited to, forwards, futures, interest only and principal only strips, options, structured notes, swaps, etc. are prohibited.

Communications

Written and/or oral reports must be supplied by the Investment Manager, in sufficient detail and with supporting commentary, so the CIO and DEPMDCIO are apprised of status and any changes in philosophy or investment strategy. Periodic meetings shall be held with the Investment Manager to discuss performance results, economic outlook, investment strategy, organizational changes and other pertinent matters.

The Board requires continual awareness of the System's activity and position, both absolute and relative. To accomplish this, the following shall be provided by the public market Investment Managers:

A. Promptly -

1. When requested by the Staff - a complete listing of all holdings, pending trades, transaction history and any additional related information.
2. Notification to the CIO, the DEPMDCIO, and the Compliance Officer of any compliance exceptions as they relate to these policies and applicable amendments.
3. Notification to the CIO, DEPMDCIO, and the Compliance Officer of any material personnel or organizational changes that could affect the management of the System's portfolio.

B. Daily - To the Custodian Bank, IA, and the IAASP:

1. On a daily basis all trades, including foreign currency exchange transactions, must be sent via e-mail to IA and IAASP in a Microsoft Excel-readable formatted file. The trade file should include, but not be limited to, the following: Custodian Account Number, Buy/Sell indicator, Broker Identification Code, Broker Name, Trade Date, Settle Date, Ticker, CUSIP,

***Public Markets Emerging Investment
Manager Program Policy***

of

***the Commonwealth of Pennsylvania
Public School Employees' Retirement Board***

~~As adopted by
the Board of Trustees
on January 25, 2008~~

Effective
January 25, 2008

~~**Adopted: January 25, 2008**~~

~~Date Last Reviewed by Chief Investment Officer: January 25, 2008~~

PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD
PUBLIC MARKETS EMERGING INVESTMENT MANAGER PROGRAM POLICY

I. OBJECTIVES AND GOALS

Consistent with the Board's fiduciary responsibilities, the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) has established the Public Markets Emerging Investment Manager Program (PMEIM Program) to:

1. Locate and fund managers with successful histories of generating positive alpha with Risk commensurate with the alpha generated (positive Risk adjusted returns);
2. Provide a source of potential managers for the main fund; and,
3. Assist public market emerging investment management firms with positive Risk adjusted returns grow through use of the System's name in the manager's marketing efforts.

The Board has allocated up to \$1.0 billion to the PMEIM Program. Funding for each investment manager will come from assets allocated within the main fund similar to or most closely related to the investment manager's mandate. The maximum number of investment managers in the program at any one time shall not exceed 25. The program may run with less than 25 investment managers.

II. PUBLIC MARKETS EMERGING INVESTMENT MANAGER PROGRAM CRITERIA

Investment Manager desiring to participate in the program must meet the following required criteria:

- ◆ Firms must be registered under the Investment Advisors Act of 1940 or be exempt therefrom (and will maintain such registration or exemption);
- ◆ Firms must provide transparency of positions and transactions;
- ◆ Firms must provide at least quarterly liquidity;
- ◆ Firms, the portfolio manager, or any combination thereof must have a three-year historical, performance record verified by at least one consultant or accounting firm in accordance with Global Investment Performance Standards (GIPS);
- ◆ Firms considered to provide Equity, Commodity or Absolute Return exposure must have no more than \$1.5 billion of total assets under management when hired (existing investment managers will be terminated within a reasonable period of time from the PMEIM Program when the total assets under management exceeds \$3.0 billion);
- ◆ Firms considered to provide Fixed Income exposure must have no more than \$3.0 billion of total assets under management when hired (existing investment managers will be terminated within a reasonable period of time from the PMEIM Program when the total assets under management exceeds \$6.0 billion);
- ◆ For performance-based fee accounts, the managers must exceed both a hurdle rate and a high water mark before they can earn the performance-based fee.

Preference will be given to investment managers deemed by Investment Office Staff (IOS) as able to meet the objectives, goals, and required criteria noted above plus having one or more of the following characteristics:

- ◆ Pennsylvania investment management firms headquartered or incorporated within the Commonwealth; and/or,
- ◆ Minority- or women-owned investment management firms approved by the Office of Minority and Women Business Enterprise in accordance with the criteria established by Executive Order No. 1987-18 and 4 Pennsylvania Code, Section 68.204.

Please note: Firms applying for participation under the status of a Women and/or Minority Owned Business must contact the Office of Minority & Women Business Enterprise at (717) 783-3119 to obtain the proper certification material.

III. ADMINISTRATION OF THE PUBLIC MARKETS EMERGING INVESTMENT MANAGER PROGRAM

IOS has the authority to hire and fund any investment manager meeting the objectives, goals, and criteria set forth above as long as capacity exists within the PMEIM Program. IOS has authority to invest in any type of business organization or investment fund (including, without limitation, Separate Accounts and limited partnerships) that meets the liquidity and transparency guidelines set forth in this Policy. The PMEIM Program is prohibited from investing in investment vehicles that primarily include private equity, private debt, venture capital or private real estate instruments. Investments in Absolute Return strategies are subject to manager selection requirements within the Absolute Return Policy (Addendum X2).

The Emerging Manager Portfolio Manager (EMPM) is responsible for administering the PMEIM Program. The EMPM will meet with managers that appear to meet the objectives, goals, and criteria of the PMEIM Program. Any investment manager considered for hiring into the PMEIM Program will meet with the Internal Review Committee (IRC). ~~The IRC will consist of the Chief Investment Officer, the EMPM, the five Investment Office Directors (External Public Markets, Risk & Compliance, Equity, Fixed Income, Trading, and Private Markets), and any other IOS deemed necessary. The purpose of the IRC is to will~~ review each manager considered for inclusion in the PMEIM Program and provide feedback to the EMPM. IOS approval required to hire any manager into the PMEIM Program include the EMPM, the EMPM's supervising Investment Office Directors supervisor, and the CIO.

IOS is required to obtain Board approval in instances when the CIO, EMPM's supervising Investment Office Directors supervisor, and EMPM locate (or have retained) an exceptional investment manager that does not meet one or more of the above required criteria. In these cases, IOS shall present to the Board the specific reasons for hiring the investment manager ~~to the Board~~. Upon approval of the Board, IOS shall have the authority to fund the investment manager accordingsubject to VI. Fundings, which is described later.

The EMPM's responsibilities also include either recommending the investment manager for inclusion in the main fund or terminating the investment manager. Investment managers hired into the PMEIM Program will continue in the program for generally three- to five-years. If the investment manager generates strong Risk adjusted returns, IOS will use best efforts, in conjunction with the General Investment Consultant and the Board, to make a place in the main fund for that investment manager. IOS and the General Investment Consultant will consider things such as the investment manager's assets under management and projected

ability to continue generating strong Risk adjusted returns in the future. An investment manager may be terminated by the EMPM, with approval from the EMPM's supervising ~~Investment Office Director-supervisor~~ and the CIO, if that investment manager is underperforming, not generating strong Risk adjusted returns, not meeting the criteria to move into the main fund, changes their investment process, has personnel turnover, or any other reason which is deemed by IOS to be in the best interests of the System.

IV. INVESTMENT GUIDELINES

Each investment manager shall manage its portfolio within the constraints of the contract entered into between the investment manager and the Board, the Investment Policy Statement, Objectives and Guidelines, any applicable addendum, and any applicable amendments thereto ~~or within the constraints of the Offering Memorandum if the System will be entering into a commingled fund structure with the investment manager.~~ IOS shall have authority to negotiate the investment contract with the investment manager, including the investment guidelines.

V. INSURANCE

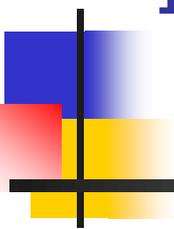
All of the standard insurance provisions set forth in the Investment Policy Statement, Objectives and Guidelines, except for the maximum deductibles, will apply to the investment manager until the investment manager is either managing over \$100 million for the Emerging Manager Program or is moved out of the Emerging Manager Program into the main fund. The maximum deductible for both the Error and Omissions Insurance and the Fidelity Bond is the greater of 10% of audited retained earnings or:

<u>Asset Size</u>	<u>Maximum Deductible</u>
\$0 - \$50 million	\$50,000
\$50 - \$75 million	\$100,000
\$75 - 100 million	\$200,000

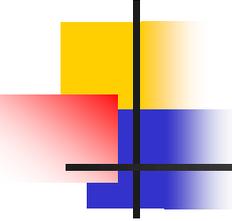
VI. FUNDINGS

Total capital allocated to any individual investment manager may not exceed ~~\$75~~ 100 million during their participation in the PMEIM Program. The EMPM, the EMPM's ~~supervising Director~~ supervisor, and the CIO will determine the amount of the initial allocation and each subsequent allocation to each investment manager.

Proposed Revisions to the Investment Policy Statement and Investment Objectives and Guidelines

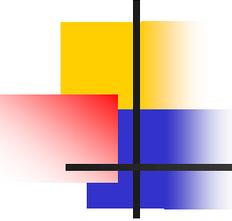


Joseph W. Sheva CPA
Senior Investment Professional -External
Public Markets, Risk, and Compliance
January 19, 2012



Investment Objectives and Guidelines

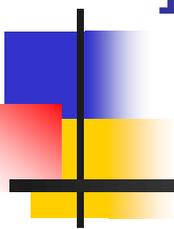
- Addendum X3 - Private Markets and Real Estate In-House Co-Investment and Secondary Investment Policy
 - Added new Policy - discussed during the Private Markets update



Investment Policy Statement

- Policy Updates
 - Placement Agents Section
- Objectives and Guidelines Updates
 - Insurance Section
- Exhibits Updates
 - Removed Private Markets and Hedge Funds Letters of Understanding
 - Public Markets Emerging Investment Manager Program Policy
 - Increased AUM criteria for Fixed Income managers
 - Increased allocation maximum to \$100 million

Proposed Revisions to the Investment Policy Statement and Investment Objectives and Guidelines



Joseph W. Sheva CPA
Senior Investment Professional -External
Public Markets, Risk, and Compliance
January 19, 2012