CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

POLICY STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND GUIDELINES

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PURPOSE

The purpose of this Statement of Investment Goals, Objectives and Guidelines is to assist the Board of Trustees of the Charlotte Firefighters' Retirement System (hereinafter referred to as "Board" "System", respectively) to more effectively supervise and monitor the investment of its Retirement Plan assets.

In the various sections of this policy document, the Board defines System's investment program by:

- stating in a written document the Board's attitudes, goals and objectives in the investment of System assets.
- setting forth an investment structure for managing assets. This structure includes various asset classes and investment management styles that, in aggregate, are expected to produce a sufficient level of diversification and investment return over time.
- providing guidelines for each investment portfolio that control the level of risk assumed in the portfolio and ensure that assets are managed in accordance with stated objectives.
- encouraging effective communication between the Board and System's investment managers.
- establishing criteria to monitor and evaluate the performance results achieved by the investment managers.

This Statement represents the Board's current philosophy regarding the investment of System assets. In addition, although the Board shall utilize this Policy Statement in making decisions concerning the System, it shall not necessarily be bound solely by its contents.

BACKGROUND

The Charlotte Firefighters' Retirement System is the primary retirement income vehicle for its participants and is co-sponsored by the City of Charlotte and the uniformed Civil Service employees of the Charlotte Fire Department. The Board will discharge its investment responsibilities and make all decisions solely in the interest of Plan Participants and their beneficiaries, and act with the same case, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.

FUNDING PHILOSOPHY

The Board's funding goal for the System is to be as fully funded as prudently possible so that:

- The ability to pay all benefit obligations when due is ensured;
- the City of Charlotte and the Board have flexibility in determining the future level of contributions; and
- Sufficient liquidity and adequate diversification are maintained to balance short-term and long-term needs and objectives

Investment results are considered to be a critical element in achieving the System's funding goal stated above.

RISK TOLERANCE

In establishing investment objectives and guidelines that are consistent with the Board's funding goal, several factors were examined to determine the System's financial ability to withstand variability of investment return. The Board analyzed the System's financial and legal characteristics, work force demographics, actuarial and funding policies as well as actual experience

The assets of the System should be invested with a risk orientation that is consistent with a moderate ability to assume risk. The Board defines a moderate risk orientation as:

- a willingness to tolerate some interim fluctuations in market value and rates of return in order to achieve the asset allocation objective stated on the following page; and
- a desire to limit the volatility in the fund's rate of return to a level that approximates the average volatility experienced by the other U.S. defined benefit retirement plans.

INVESTMENT OBJECTIVE AND GUIDELINES

ASSET ALLOCATION

The System's risk tolerance is, in large part, a function of the asset mix established for the Fund. Based on its analysis of capital and money market return patterns, both historical and projected, the Board considers the following asset allocation guidelines to be consistent with the risk tolerance previously defined.

TOTAL FUND ASSET MIX GUIDELINES

The Total Fund Asset Mix Guidelines will be implemented and maintained by the following distribution through a combination of "Specialist" Investment Managers and internal management in each of the asset class categories as follows:

"Specialist" Managers	Initial Allocation	Acceptable Range
Domestic Equity	36%	±5%
Non-Domestic Equity	26%	±4%
Real Estate	10%	±3%
Domestic Fixed Income	23%	±4%
Non-Domestic Fixed Income	5%	±2%

This distribution of assets among the aforementioned investment managers and the individual manager guidelines (included in Appendix A) will produce the following Total Fund Asset Mix Ranges:

	Market Value Exposure	
	Maximum	Minimum
Domestic Equities	41%	31%
Non-Domestic Equities	30%	22%
Real Estate	13%	7%
Domestic Fixed Income	27%	19%
Non-Domestic Fixed Income	7%	3%

These guidelines are to be pursued by the Fund on a long-term basis (ten-year goal) but will be revised if significant changes occur within the economic and/or capital market environments.

INVESTMENT GOAL

In formulating investment goals for the System's assets, the Board placed primary emphasis on the following:

- Achieving investment results that will accomplish the stated funding goal for the System. Inflation is the key factor driving the cost of retirement programs. The primary function of a retirement plan investment program is to help pay the cost of providing retirement benefits by offsetting the impact of inflation on costs. Therefore, investment performance that exceeds the rate of inflation, thereby providing a real rate of return, will contribute to the proper funding of the System.

- Receiving from its investment managers, performance that is above average compared to other comparable styled managers.

- Managing the portfolio on a total return basis with sufficient liquidity to cover benefit payments, administrative costs and investment manager, trustee, actuary, performance measurement and consultant fees.

Accordingly, the specific goals set forth below (and objectives stated in the Appendix "B" for each manager) reflect the above general goals.

1. Total Fund Goals

As noted in a prior section, the System's primary funding goal is to achieve and maintain a funded status that provides for the security of retirement income to participants in the Plan.

Given the impact of inflation on Retirement Plan funding, the primary total fund investment goal is to achieve a positive inflation-adjusted (real) return. The Board recognizes that over short and intermediate periods of time its goal may be difficult to achieve because rapid increases or decreases in the level of inflation tend to adversely impact the capital markets. For this reason, the total fund inflation-adjusted goal is established in the context of a longer-term time horizon:

- The Fund's overall annualized total return (price change plus income) should exceed the return available from a policy of "rolling over" 91-day Treasury Bills (as a proxy for the inflation rate) by at least 325 basis points per year measured over a period of 10 years. A 325 basis points annual premium above "risk free" Treasury Bill rates is consistent with the desired risk tolerance.

- The Fund's annualized total return over a rolling period of five years should, exceed by 75 basis points the return that would have been achieved if the Fund had been invested 36% in the Russell 3000 Stock Index, 26% in the Morgan Stanley Capital International (MSCI) All-Country World ex USA Investable Market Index (MSCI ACWI ex US IMI), 23% in the Bloomberg Aggregate Bond Index (Bloomberg Aggregate), 10% in the NCREIF Open-End DCE Index (NCREIF ODCE), and 5% in the JP Morgan Global Bond Index (JPM GBI ex-US).

2. Domestic Equity Segment Goals

The following performance goals have been established for the Fund's domestic equity segment:

- The domestic equity segment total return should rank in the upper 50% compared to the domestic equity results of other retirement fund portfolios measured over a period of five years.

- The domestic equity segment total return should exceed the total return of the Russell 3000 Stock Index by at least 50 basis points per year measured over a period of five years.

3. Non-Domestic Equity Segment Goals

The following performance goals have been established for the Non-Domestic Equity segment of the System's assets:

- The non-domestic equity segment total return should rank in the upper 50% compared to the non-domestic equity results of other retirement fund portfolios measured over a period of five years.

- The non-domestic equity segment total return should exceed the total return of the Morgan Stanley Capital International (MSCI) All-Country World ex USA Investable Market Index (MSCI ACWI ex US IMI), by at least 100 basis points per year measured over a period of five years.

4. <u>Real Estate Segment Goals</u>

The following performance goals have been established for the real estate segment of the System's assets.

- The total real estate segment return should rank in the upper 50% compared to the real estate results of other retirement fund portfolios measured over a period of five years.

- The total real estate segment return should exceed the NCREIF Open-End DCE Index by at least 25 basis points per year over a period of five years.

5. <u>Domestic Fixed Income Segment Goals</u>

The following performance goals have been established for the Fund's domestic fixed income segment of the System's assets.

- The total domestic fixed segment return should rank in the upper 50% compared to the fixed income results of other retirement fund portfolios measured over a period of five years.

- The total domestic fixed income return should exceed the total return of the Bloomberg Aggregate Bond Index by at least 25 basis points per year measured over a period of five years.

6. <u>Non-Domestic Fixed Income Segment Goals</u>

The following performance goals have been established for the Fund's non-U.S. fixed income segment of the System's assets.

- The total non-U.S. fixed income segment should rank in the upper 50% compared to the Non-U.S. fixed income results of other retirement fund portfolios measured over a period of five years.

- The total non-U.S. fixed income return should exceed the total return of the JP Morgan Global Bond Index (JPM GBI ex-US) by at least 50 basis points per year measured over a period of five years.

RESPONSIBILITIES OF THE INVESTMENT MANAGERS

The duties and responsibilities of each investment manager retained by the Board include:

1. Managing the assets under its management in accordance with the policy objectives and guidelines expressed herein.

2. Exercising investment discretion within the objectives and guidelines stated herein. 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 stated investment objectives.

3. Promptly informing the Board regarding all significant matters pertaining to the investment of the fund assets; for example:

    - substantive changes in investment strategy, portfolio structure and market value of managed assets, and

    - significant changes in the ownership, affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organization.

4. Initiating written communication with the Board whenever the investment manager believes that this Policy Statement of Investment Goals, Objectives and Guidelines should be altered. No deviation from objectives and guidelines established in this policy should occur until after such written communication has occurred and the Board has approved such deviation in writing.

5. Complying with the provisions of Section 50 as amended (see appendix "C") of the Charlotte Firefighters' Retirement System Act as it pertains to the investment manager's duties and responsibilities as a fiduciary.

6. Acknowledging in writing to the Board the investment manager's intention to comply with the Policy Statement of Investment Goals, Objectives and Guidelines as it currently exists or as modified in the future.

7. Submitting to the Board exhibits, written material, etc., that will be used during periodic conferences with the Investment Committee or the Board at least seven business days in advance of these conferences. Please refer to Appendix "A" for a description of the reporting requirements.

8. Voting the proxies (equity managers) in the best interests of the System. On a quarterly basis, each manager voting proxies will report its votes to the System with a brief explanation of each vote.

EVALUATION AND REVIEW

Manager Evaluation

In evaluating its relationship with all investment managers, the Board will consider qualitative factors likely to impact the future performance of the portfolio in addition to current and historical rates of return. The Board acknowledges that, as a result of exercising its fiduciary duty to monitor its investment managers, it may from time to time need to give consideration to terminating a contractual relationship with an investment manager. The Board reserves the right to terminate managers at its discretion. The Board has deemed it appropriate to include "objective standards" designed to guide future decisions to terminate contractual relationships.

The standards, noted below, are not to be mechanically applied. Rather, if an investment manager seemingly fails to meet any one of the following three standards, then, subject to appropriate formal review, the Board may decide to terminate a relationship. The three standards are these:

1) Extraordinary Events (Organizational Issues)

   Extraordinary events that need to be rigorously evaluated prior to a termination decision include such things as:

   a) Ownership changes (e.g., key people "cash out")
   b) Key people leave firm
   c) Manager changes the investment strategy it was hired to implement
   d) Manager is involved in material litigation or fraud
   e) Material client-servicing problems

2) Long-Term Performance in Relation to Appropriate Market Index and Appropriate "Style Group"

   Long-term performance standards should measure a manager's since-inception and rolling five-year or seven-year returns in relation to the performance target index and median return of a previously agreed-upon peer group of managers with similar investment styles.

3) Shorter-Term Performance in Relation to Appropriate "Style Group" and/or Style Benchmark

   Shorter-term performance standards should incorporate a time period of at least three years. However, 4 consecutive quarters of underperformance may also be considered. Each manager is to be measured against the median return of a previously agreed-upon peer group of managers with similar investment styles and the appropriate style benchmark.

Ultimately the decision to retain or terminate a manager cannot be made by a formula. It is a judgment that turns on the Board's assessment of the firm's ability to perform in the future. In general, managers should be retained if the Board believes that their strategy, discipline and process will continue to fulfill the role for which they were hired, and they have a high probability of achieving performance targets within a reasonable time frame.

Watch List Guidelines

The Board is responsible for monitoring the performance of the System's investment managers on an ongoing basis. The Board may place a manager on a "Watch List" at any time. The Board may also terminate a manager at any time whether or not a manager is on the "Watch List".

The Board may place an investment manager on the "Watch List" for a variety of reasons: Personnel changes, violation of policy and investment guidelines, style deviation, underperformance and asset-allocation changes. There are various factors that the Board should take into account when considering placing a manager on a "Watch List". These can be separated into two broad categories – qualitative and quantitative factors. The former focuses on personnel, organizational and legal issues, while the latter addresses performance.

Placing a manager on the "Watch List" is an intermediate step that may be taken to either resolve the problem or terminate the relationship with the manager. These watch list guidelines are not to be mechanically applied. Rather, the Board and its consultant should conduct an appropriate formal review process prior to terminating a relationship with a manager.

Qualitative Factors

Below are *qualitative* factors that the Board may consider in determining whether a relationship with an investment manager should be terminated.

FACTOR	EVALUATION	**ACTION STEPS**
• Deviation from stated investment style and philosophy	• Style mapping – total fund analysis. • Style attribution – manager specific style analysis.	Place on watch list. Monitor for ongoing fit with asset allocation policy. Terminate if no longer consistent with asset allocation structure.
• Changes in ownership or business plan	Require immediate notification of any pending changes in ownership.	Place on watch list for a predetermined and agreed upon time frame. Qualitatively determine if change may detrimentally affect asset performance. If so, terminate.
• Turnover of key personnel	Require immediate notification of any changes in key personnel.	Place on watch list. May terminate if the personnel turnover on the account is judged to be material.
• Litigation	Require manager to notify immediately if entity which manages the funds is involved in any litigation.	Evaluate seriousness and likely impact of changes on the investment process and take appropriate action.

Quantitative Factors

Below are *quantitative* factors to be considered in determining the appropriateness of placing an investment manager on the "Watch List".

a) Minimum of three years of performance preferred but not required prior to placement on the watch list.

b) Individual managers will be measured and compared to appropriate performance target indices on a risk-adjusted and net-of-fee basis. (Appropriate indices and peer groups are listed in Appendix A.)

Short-term Performance Criteria:

PERFORMANCE TEST	BENCHMARK	**FAIL CRITERIA**
Three years	Relative to appropriate peer group	If manager fails to exceed the median over a 3-year period
Three years	Relative to appropriate style benchmark	If manager fails to exceed the style benchmark over a 3-year period
Four consecutive quarters	Relative to appropriate peer group	If manager performs below the 75^{th} percentile of the peer group

Failing to meet the above criteria will lead to a formal review process, which may lead to termination.

Long-term Performance Criteria:

PERFORMANCE TEST	BENCHMARK	**FAIL CRITERIA**
Since Inception	Performance Target Index that has been predetermined and a style index if and when necessary	If a manager fails to generate a return premium in excess of the designated index (indices) net of fees, after a formal review process, the System has the option to terminate.
Rolling five and seven years	Performance Target index that has been predetermined and a style index if and when necessary	If a manager fails to generate a return premium in excess of the designated index (indices) net of fees, after a formal review process, the System has the option to terminate.

The following factors are important to monitor on an ongoing basis to understand and track the performance of the investment managers who have been placed on the watch list:

FACTOR	EVALUATION TECHNIQUE
Consistency of returns	• Rolling 3-year returns relative to Performance Target Index. • Rolling 3-year returns relative to appropriate style group.
Risk-adjusted performance	• Rolling 3-year excess return ratio • Risk reward chart. • Sharpe ratio.

Watch List Review Process

When a manager is placed on the "Watch List", the Board will conduct a formal manager review according to this process:

1. Send a letter to the manager stating the reasons for being placed on the "Watch List" consistent with these guidelines.
2. Request the manager to provide an analysis of and reasons for the underperformance.
3. Meet with the manager to gain insight into organizational changes and any changes in strategy or discipline.
4. Review other viable investment alternatives to identify other product providers in the event the firm is subsequently terminated.

If a manager has been on the watch list for one year, and after further review the manager has not corrected the problem, the Board may terminate its relationship with the manager. If a manager placed on the watch list has corrected the problem, the Board will remove the manager from the watch list.

System Total Fund Evaluation

In addition to reviewing each investment manager's objectives and guidelines, the Board will re-evaluate, from time to time, its progress in achieving the total fund and segment goals previously outlined. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of: (1) the manager structure set forth in Appendix "A", (2) the allocation of assets among the managers; and (3) the investment goals and objectives for the System's assets.

APPENDIX A
INVESTMENT MANAGER PERFORMANCE REVIEW PRESENTATIONS

Generally, investment managers are asked to attend an Investment Committee meeting for a presentation and portfolio review once each year unless the Committee deems it advisable to schedule additional meetings. The CFRS office typically confirms a manager's review date after the Board approves the annual meeting calendar with final confirmation via email 4-6 weeks in advance of the scheduled Investment Committee meeting.

Each manager’s review will be approximately 30 - 40 minutes in duration. This includes the presentation and questions/discussion with Committee members. Each manager is asked to provide eight (8) hard copies and one (1) soft copy of any presentation material a week prior to the scheduled meeting.

The specific information to be provided as part of the presentation (to the extent that the topic is pertinent to the specific portfolio or mandate) is listed below in the suggested presentation outline.

Topic		**Content**
I.	Introductions	
II.	Firm overview	History; principal business(es); ownership; ownership changes since last review meeting; org chart (investment management); advisors / sub-advisors (CFRS account only)
III.	Mandate overview	Asset class / investment style; benchmarks
IV.	Investment strategy and process overview	Security selection; tactical allocation; summary of principal risks; for active managers: approach to generating alpha
V.	Financial highlights (12 mos.; most recent quarter end)	Portfolio beginning / ending value; transfers in / out; investment income; expenses; unrealized gains / losses
VI.	Performance summary (1-, 3- and 5-year; most recent quarter end)	Returns net of fees; benchmark comparisons, including peer percentile rankings if available; performance attribution analysis (if applicable); correlation analysis (broad categories)
VII.	Portfolio characteristics	Equities: number of positions, sector diversification, PE, median market cap, dividend yield, etc.; fixed income: number of positions, duration, credit quality, maturity distribution, etc.; cash / reserves holdings; top 10 positions by issuer
VIII.	Fees and expenses	Portfolio turnover; performance fees; other noteworthy fees / expenses (e.g., advisor fees)
IX.	Capital markets outlook	Firm’s outlook and forecast for the next 12 months as it relates to the performance and prospects for the mandate; manager’s strategy for navigating near-term challenges and opportunities
X.	Compliance attestation	Statement signed by the firm’s Chief Investment Officer, Chief Compliance Officer, or Principal attesting to compliance with the applicable Fund Segment and Individual Manager Guidelines (Policy Statement of Investment Goals, Objectives and Guidelines), or trust agreement / prospectus if applicable

Retirement Plan Investment Structure

Investment Manager	Target Allocation
Domestic Equity Specialist Manager Large Capitalization “Index” Orientation	21.60%
Domestic Equity Specialist Manager Mid Capitalization “Value” Orientation	3.60%
Domestic Equity Specialist Manager Mid Capitalization “Growth” Orientation	3.60%
Domestic Equity Specialist Manager Small Capitalization “Value” Orientation	3.60%
Domestic Equity Specialist Manager Small Capitalization “Growth” Orientation	3.60%
Non-Domestic Equity Specialist Manager Large and Mid-Capitalization Developed Active Orientation	8.60%
Non-Domestic Equity Specialist Manager Large and Mid-Capitalization Developed “Index” Orientation	8.60%
Non-Domestic Equity Specialist Manager Small Capitalization Orientation	4.00%
Non-Domestic Equity Specialist Manager Emerging Markets Orientation	4.80%
Real Estate Specialist Manager "National Orientation"	10.00%
Domestic Fixed Income Specialist Manager “Core Bond” Orientation	17.25%
Domestic Fixed Income Specialist Manager "Index" Orientation	5.75%
Non-Domestic Fixed Income Specialist Manager “Core Bond” plus Emerging Market Debt Orientation	5.00%
TOTAL	**100.00%**

Fund Segment and Individual Manager Guidelines

1. Manager Structure

The Board will retain investment managers for particular asset classes. The distribution of System assets among managers will be as illustrated on the previous page. The established structure offers an appropriate "blend" of investment styles that will produce a sufficient level of diversification and investment return over time.

2. Cash Flow Allocation

The target allocation of assets is consistent with the Board's desire to diversify the System's investment management program.

The Board intends to review on a quarterly basis the allocation of assets among its investment managers. To the extent that it is practically possible, it is expected that any cash flow will be allocated to or taken from the managers in the same proportions that each manager's assets represent to the total fund assets in the target asset allocation outlined above.

3. Fund Segment Guidelines

Following are guidelines established for the fund segments and for each investment manager retained by the Board. Individual manager guidelines are designed to be consistent, in aggregate, with the total fund asset allocation and investment goals set forth in the Policy Statement of Investment Goals, Objectives and Guidelines. Where applicable, prior approval for a specific investment activity is assumed to be granted by the Board concerning mutual or commingled funds where the respective Prospectus or Trust Agreement permits its occurrence.

Domestic Active Equity Segment

Each domestic equity manager is expected to adhere to the following guidelines:

- Equity holdings in any one company (including common stock and convertible securities) should not exceed 8% or benchmark weight +1%, whichever is greater, of the market value of the manager's portion of the System's portfolio without the consent of the Board. Additionally, bonds of the companies in question would be included in the company exposure calculation if held in the manager's portfolio.

    - Equity holdings in any one sector (e.g., consumer cyclical, energy, technology, etc.) should not exceed the greater of 30% of the market value of the manager's portfolio or 125% of the sector in the manager's performance index target without the consent of the Board.

    - There shall be no short selling, securities lending, options trading, use of financial futures, or other specialized investment activity without the prior approval of the Board.

    - Liquidity and marketability frequently are perceived to be a function of the quality and the market capitalization of each security holding. From the Board's perspective, liquidity and marketability also may be a function of a manager's aggregate holdings in a particular security. An investment manager should not buy or hold a security for the System's portfolio if the aggregate holdings among all of that manager's accounts in that security would restrict the manager's ability to expeditiously liquidate the position.

- Although it is the Board's desire that its equity investment managers remain as fully invested at all times as is prudently possible, the small and mid-capitalization equity managers may invest up to 5% in cash and equivalents and up to 5% in a style index product of System assets under their respective management without prior approval granted by the Investment Committee of the Board.

- Permitted investments include equity securities traded on major US exchanges (NYSE, AMX, NASDAQ) including American Depository Receipts (ADRs) and globally registered securities that are issued by non-US incorporated companies and traded on a recognized US exchange.

- Investments in Special Purpose Acquisition Companies (SPACs) are not permitted.

Each investment manager shall be responsible for the daily monitoring of portfolio activity to minimize un-invested cash balances.

Domestic Large Capitalization Index Segment

The Board has chosen to invest the System's domestic index equity commitment in a commingled fund. The equity index manager is expected to adhere to the relevant guidelines as outlined in the Trust Document.

Domestic Small Capitalization Value Equity Segment

The Board has chosen to invest the System's domestic small capitalization Value equity commitment in a mutual fund. The domestic small capitalization Value equity manager is expected to adhere to the relevant guidelines as outlined in the Prospectus of the mutual fund.

Non-Domestic Emerging Markets Equity Segment

The Board has chosen to invest the System's emerging markets equity commitment in a commingled fund. The emerging markets equity manager is expected to adhere to the relevant guidelines as outlined in the Trust Document.

Non-Domestic Equity Segment

The Board has chosen to invest the System's non-domestic equity commitment in mutual and commingled funds. Each respective non-domestic equity manager is expected to adhere to the relevant guidelines as outlined in the Prospectus and/or the Trust Document.

Real Estate Segment

Each real estate investment manager is expected to adhere to the following guidelines:

- Investments in real estate equity shall be well diversified by property type, size and age. Each real estate investment manager shall be well diversified geographically within its area of expertise, i.e., nationally or regionally. Initially, only open-end pooled equity real estate funds shall be utilized.

- Although it is the Board's desire that its real estate investment managers remain as fully invested at all times as is prudently possible, real estate managers may invest up to 15% of System assets under their respective management in cash and equivalents without prior approval granted by the Investment Committee of the Board.

Domestic Fixed-Income Segment

Each domestic fixed-income manager is expected to adhere to the following guidelines:

- Bonds held in each portfolio should have a Moody's or Standard & Poor's quality rating of no less than investment grade from one of these rating services. (For an issue which is split-rated, the lowest quality designation will govern.) Unrated securities of the United States Treasury and government agencies are qualified for inclusion in the portfolio.

- The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager.

- The exposure of each manager's portfolio to the securities of any one corporation should be limited to not more than 5% of the manager's portion of the System portfolio measured at market value. Securities backed by the full faith and credit of the United States Government or any of its instrumentalities shall not be subject to exposure limitations.

- At least 90% of the bonds (i.e., 90% of the number of bonds) held in each manager's portfolio should be from index eligible issues.

- There shall be no use of options, financial futures or other specialized investment activity without the prior approval of the Board.

- Not more than 5% of an investment manager's portfolio, valued at market, shall be invested in the long-term bank certificates of deposit of a single issuer.

- Although it is the Board's desire that its fixed income investment managers remain as fully invested at all times as is prudently possible, fixed income managers may invest up to 5% of System assets under their respective management in cash and equivalents that is not a result of a portfolio investment strategy (i.e., a barbell maturity strategy) without prior approval granted by the Investment Committee of the Board.

- Each investment manager shall be responsible for the daily monitoring of portfolio activity to minimize the un-invested cash balances.

- The Core manager may invest up to 15% in less than investment grade bonds. The overall rating of the core portfolio should be A or better.

Non-Domestic Fixed Income Segment

The Board has chosen to invest the System's non-domestic fixed income commitment in a commingled fund. The System's non-domestic fixed income manager is expected to adhere to the relevant guidelines as outlined in the Prospectus and/or the Trust Document.

4. **Individual Manager Descriptions and Five-Year Objectives**

Investment Manager	Performance Index Target	Callan Peer Group Universe	Percentile Objective Relative to Peers	Excess Return Over Performance Index
Domestic Equity Large Cap Index	Russell 1000	Large Cap Core Style	N/A	-0-
Domestic Equity Mid Cap Growth	Russell Mid Cap Growth	Mid Cap Growth Style	50th	+100
Domestic Equity Mid Cap Value	Russell Mid Cap Value	Mid Cap Value Style	50th	+100
Domestic Equity Small Cap Growth	Russell 2000 Growth	Small Cap Growth Style	50th	+200
Domestic Equity Small Cap Value	Russell 2000 Value	Small Cap Value Style	50th	+200
Non-U.S. Equity Core	MSCI EAFE	Non-US Developed Core Equity	50th	+200
Non-U.S. Equity Core Index	MSCI EAFE	Non-US Developed Core Equity	N/A	-0-
Non-U.S. Equity Emerging Markets	MSCI Emerging Markets Free	Emerging Markets Broad Equity Database	50th	+200
Non-U.S. Equity Small Cap	S&P Global ex-US Small Cap Index (net)	International Small Cap	50th	+200
Domestic Fixed Income Core	Bloomberg Aggregate Index	Core Bond Fixed Income Style	50th	+50
Domestic Fixed Income Passive	Bloomberg Aggregate Index	Core Bond Fixed Income Style	N/A	-0-
Non-Domestic Fixed Income Core	JP Morgan GBI ex-US Index	Non-U.S. Fixed Income (Unhedged Gross) Style	50th	+100
Real Estate Specialist Manager	NCREIF Open-End DCE	Open-End Real Estate Funds	50th	+25

The Board has determined that it is in the best interest of the System that performance objectives be established for each investment manager. It is clearly understood that these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Investment Policy Statement. The Board acknowledges that investment styles come in and go out of favor depending on economic and capital-market conditions. Accordingly, the Board has established style group and style benchmark comparisons as shorter-term performance objectives to be applied over a minimum of rolling three-year time periods.

In addition, each equity and fixed income manager is expected to achieve positive risk-adjusted (alpha) performance over a five-year period.

Summary of Changes
Background section
Adopted 1998

APPENDIX B

INVESTMENT MANAGER DEFINITIONS

Domestic Equity Specialist Manager
Large Capitalization "Index" Orientation

Manager who seeks to replicate return and portfolio characteristics of the Russell1000 Index.

Domestic Equity Specialist Manager
Mid Capitalization "Value" Orientation

Manager who invests in mid-size companies believed to be undervalued or possessing lower than average price/earnings ratios based on their potential for capital appreciation. Standard deviation is expected to be less than or equal to that of the Russell Mid Cap Value Index.

Domestic Equity Specialist Manager
Mid Capitalization "Growth" Orientation

Manager who invests in mid-size companies that are expected to have above average prospects for long-term growth in earnings and profitability. Standard deviation is expected to be greater than that of the Russell Mid Cap Growth Index.

Domestic Equity Specialist Manager
Small Capitalization "Value" Orientation

Manager who invests in small capitalization companies that are believed to be undervalued or possessing lower than average price/earnings ratios based on their potential for capital appreciation. Standard deviation is expected to be equal to or less than that of the Russell 2000 Value Index.

Domestic Equity Specialist Manager
Small Capitalization "Growth" Orientation

Manager who invests in small capitalization companies that are expected to have above average prospects for long-term growth in earnings and profitability. Standard deviation is expected to be equal to or less than that of the Russell 2000 Growth Index.

Non-Domestic Equity Specialist Manager
Large and Mid Capitalization Developed Active Orientation

Bottom-Up/Stock Selection is a manager who primarily emphasizes stock selection in their portfolio construction. The country selection process is by-product of the stock selection decision. Standard deviation is expected to be equal to or less than that of the MSCI EAFE Index.

Non-Domestic Equity Specialist Manager
Large and Mid Capitalization Developed "Index" Orientation

Manager who seeks to replicate return and portfolio characteristics of the MSCI EAFE Index.

Non-Domestic Equity Specialist Manager

Small Capitalization Orientation

Manager who invests in the small capitalization securities primarily of nations considered to be major markets. Standard deviation is expected to be equal to or less than that of the S&P Global ex-US Small Cap Index.

Non-Domestic Equity Specialist Manager
Emerging Markets Orientation

Managers who primarily concentrate on investments in newly emerging second and third world countries in regions of the Far East, Africa, Europe, and Central and South America. These portfolios are characterized by aggressive risk/return profiles that generate high volatility in search of high returns. Standard deviation is expected to be equal to or less than that of the MSCI Emerging Markets Free Index.

Real Estate Specialist Manager

Manager who invests in United States income-producing real estate that is expected to appreciate in value.

Domestic Fixed Income Specialist Manager
"Index" Orientation

Manager who seeks to replicate return and portfolio characteristics of the Bloomberg Aggregate Index.

Domestic Fixed Income Specialist Manager
“Core Bond” Orientation

The portfolio is benchmarked against the broad market, Bloomberg Aggregate Index. Managers may utilize “plus” sector exposure to add value by tactically allocating portions of their portfolios among non-benchmark sectors (e.g. high yield corporates, non-US$ bonds, etc.) while maintaining majority exposure similar to the broad market. Standard deviation is expected to be equal to or less than that of the Bloomberg Aggregate Bond Index.

Non-Domestic Fixed Income Specialist Manager
“Core Bond” Orientation

Manager who invests in non-U.S. corporate, government, and supranational fixed income securities.

APPENDIX C

SECTION 50 - INVESTMENT/REINVESTMENT OF FUNDS AND ASSETS

The Board of Trustees shall be vested with the authority and responsibility and shall have full power to hold, purchase, sell, assign, transfer, lend and dispose of any of the securities and investments in which the System shall have been invested, as well as the proceeds of said investments and any monies belonging to the System. The Board of Trustees as fiduciaries shall:

1. Discharge its duties solely in the interest of the Participants and the Beneficiaries;

2. Act with the same care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;

3. Act with due regard for the management, reputation and stability of the issuer and the character of the particular investments being considered;

4. Make investments for the exclusive purpose of providing benefits to Participants and Participants' Beneficiaries.

5. Give appropriate consideration to those facts and circumstances the Board of Trustees knows or should know are relevant to the particular investment or investment course of action involved, including the role the investment or investment course of action plays in that portion of the System's investments for which the Board of Trustees has responsibility, and shall act accordingly. Appropriate consideration shall include, but is not limited to, a determination by the Board of Trustees that a particular investment or investment course of action is reasonably designed as part of the investments of the System to further the purposes of the System taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action; and consideration of the following factors as they relate to the investment or the investment course of action:

   a) The diversification of the investments of the System;
   b) The liquidity and current return of the investments of the System relative to anticipated cash flow requirements of the System; and
   c) The projected return of the investments of the System relative to the funding objectives of the System;

6. Give appropriate consideration to investments which would enhance the general welfare of the City and its citizens if those investments offer the safety and rate of return comparable to other investments held by the System and available to the Board of Trustees at the time the investment decision is made;

7. May use a portion of income of the System to defray the cost of investing, managing and protecting the assets of the System; and

8. May utilize the services of Investment Fiduciaries to manage the assets of the System. These Investment Fiduciaries shall be subject to the terms, conditions, and limitations provided in this Section and any limitations as set forth by the Board of Trustees.