INVESTMENT POLICY STATEMENT

TABLE OF CONTENTS

I. INVESTMENT PHILOSOPHY

The following statements represent the investment principles and philosophy governing the investment of assets held for the benefit of the Sonoma County Employees' Retirement Association (SCERA). These statements describe the core values and beliefs that will form the basis for investment decisions.

These commonly held fundamental investment beliefs are:

A. The publicly-traded markets are largely efficient because of the broad availability of information. As a result, after considering the costs of trading and management fees public equities are the major capital market where passive management is viewed as appropriate. Furthermore, there are market segments within public equities, such as small capitalization equities and emerging market equities, where market efficiency is moderately lower, thus affording investors better active management opportunities. SCERA believes the most optimal structure for equity investing is with a passive core allocation surrounded by high-confidence active managers. There is no explicit targeted percentage for passive or active equities. Active management is viewed as most appropriate in fixed income, primarily because passive alternatives do not fully encompass the opportunity set and the incremental cost of moving from passive to active management is generally more modest in fixed income and, as a result, more easily justified. Active management is also utilized in private markets, such as real assets, as truly representative passive alternatives are not available.

B. That the single most important decision the Investment Committee makes is the long-term asset allocation decision. As a result, SCERA will periodically conduct asset allocation studies to assess the fund's risk exposures and the probability of achieving its long-run return goals.

C. That investment risk cannot be avoided, but can be managed and it is appropriate to assume a prudent level of risk to achieve a desired level of return. The management of investment risk is an important part of the Plan's Investment Philosophy Statement but, because of its complexity, a more robust discussion is provided below under the Risk Philosophy Statement.

D. That the achievement of long-term investment goals is the result of sound strategic decisions and consistency in implementation. Ad-hoc asset or manager allocations are likely to result in poor outcomes. As a result, SCERA will generally delegate tactical implementation decisions to its investment managers and SCERA will normally avoid ad-hoc re-allocations to any manager or asset class in reaction to recent market conditions.

E. That the capital markets are mean-reverting by nature. As a result, SCERA will use long-term strategic asset class allocations and rebalance to those allocations within tight ranges by using a combination of physical assets and derivative exposures. See the Asset Allocation Targets and Ranges and Rebalancing Guidelines sections for details.

F. That short-term market timing is generally ineffective as a strategy for institutional funds. As a result, SCERA will typically require managers to remain fully invested in all long-term mandates. Exceptions are made for managers with asset allocation mandates or those which SCERA believes have the ability to manage cash effectively.

G. That it is necessary to use long time frames and appropriate benchmarks to fairly evaluate active manager performance. Performance differences in asset class, strategies, styles (growth, value), and market capitalizations will have multi-year cycles. As a result, even the best performing managers may have periods of both under- and over-performance relative to their benchmarks. As a result, SCERA will use long time frames (rolling 3- and 5-year periods) and appropriate investment benchmarks when evaluating managers.

H. Investment implementation should be cost and resource effective. As a result, when evaluating asset classes and implementation strategies, SCERA will also examine monitoring costs, incremental investment risks and operational risks, as well as the incremental returns.

II. RISK PHILOSOPHY

The Investment Committee believes in a broadly diversified portfolio with a combination of asset classes in proportions designed to provide a desired risk-return profile. While there are many types of investment risks and various methods for estimating them, one construct is to think in terms of systematic or market risk and non-systematic risk. The broadly diversified portfolio limits non-systematic risk and leaves principally the systematic risk associated with the asset classes included in the asset allocation mix. Modest levels of non-systematic risk are inherent when the Plan employs active investment managers but in these cases risks are mitigated and constrained by imposing limits on the investment manager's freedom to deviate from the benchmark and by employing investment managers with complementary approaches to investing. (See the Investment Guidelines section below for details.)

As stated, there are many forms of investment risk but the greatest hazard for SCERA is the risk over the long-term of a shortfall in assets relative to the Plan's liabilities. Other forms of risk, including short-term volatility, are subordinate to this shortfall risk. One way we measure our progress toward this long-term funding goal is by comparing SCERA's net return to the actuarial assumed rate-of-return over the short- and intermediate-term. The estimate of the liability is adjusted periodically by SCERA's actuary based on experience, Plan design and the assumed rate-of-return and is adjusted when capital market expectations materially change or the asset allocation is modified. When estimating returns and risks for planning purposes the Investment Committee relies on staff, SCERA's investment consultant, subject matter experts and industry best practice.

The element of time is an important factor when estimating risk. The most common form of risk is arguably short-term volatility which is often measured by the standard deviation of returns. While SCERA has a long investment horizon short-term volatility is relevant because it reflects the best current estimate of the market value of the assets and because it can impact the contributions of the sponsors and, as a result, their ability to fund the Plan in a healthy manner. On the other hand, given SCERA's long investment horizon a prudent level of short-term volatility may be accepted if it is believed that the Plan will be compensated for this risk with higher long-term returns. As an example, equities are typically more volatile over the short-term than fixed income, the other major asset class, but over the long-term equities have consistently provided a higher level of return. As a result, and given SCERA's long-term horizon, the Investment Committee has determined that it was an appropriate risk-return tradeoff for a majority of the Plan's assets to be invested in a diversified portfolio of equities. Similarly, illiquidity is a short to intermediate term risk of which a certain amount can be accepted when the market appears to offer additional incremental return as an inducement. However, not so much illiquidity will be accepted as to jeopardize the Plan's ability to meet its cash flow obligations. It is also acknowledged that as the Plan matures it is typical that net cash outflow as a share of Plan assets will increase, reducing SCERA's tolerance for illiquidity. Other forms of short- and intermediate-term risks are being monitored and managed including, but not limited to, inflation risk, interest rate risk, currency risk and active management risk.

III. INTRODUCTION

The purpose of the Sonoma County Employees' Retirement Association (SCERA) is to provide and protect retirement benefits for its members and beneficiaries. To help accomplish this mission, the Retirement Board ("the Board") has prepared this Investment Policy Statement ("the Policy") within the context of applicable California laws. The statements contained in this document are intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure prudence and care are maintained in the execution of the investment program.

The Board has arrived at this Policy through careful study of the returns and risks associated with alternative investment strategies in relation to the current and projected liabilities of the SCERA. This Policy has been chosen as the most appropriate policy for achieving the financial objectives of the SCERA which are described in the Objectives section of this document.

The Board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long term potential for appreciation of assets. The assets of the SCERA will be invested in a manner that provides the safeguards and diversity that a prudent investor would adhere to. All transactions undertaken on behalf of SCERA will be in the sole interest of the Participants.

IV. DUTIES AND RESPONSIBILITIES

A. The Retirement Board (the "Board")

The Board is responsible for overseeing the investment activities of SCERA. The Investment Committee is authorized to act on behalf of the Board, without necessity for further Board action or approval, with regard to all investment related matters. This includes, but is not limited to, selecting acceptable asset classes, defining allowable ranges of holdings by asset class and by individual investment managers as a percent of assets, defining acceptable securities within each class, establishing investment performance expectations, and making revisions to this investment policy as necessary.

The Investment Committee selects, retains and replaces investment managers and all other external investment service providers. The Investment Committee will also review investment performance at least quarterly, assure the policy is being followed, and evaluate the progress being made toward achieving objectives.

A reference to the powers, duties or authority of the Board in this Investment Policy after this subsection A may be read as a reference to the Investment Committee acting on behalf of the Board.

B. The Investment Committee (the "Committee")

The Committee will be comprised of all Board members. At a minimum, the Committee meets twice a quarter. The Committee is charged with administering the SCERA investment program, with duties and responsibilities as provided herein and in the Investment Committee Charter.

C. External Service Professionals

SCERA assets will be managed by professional investment managers except to the extent the Board specifically delegates investment authority for Cash Management portfolios to the Treasurer of Sonoma County or State of California investment pools.

D. Hiring Process and Review of External Service Providers

As it relates to the external service providers, a thorough and careful screening is conducted and reviewed for approval by the Board. Some of the criteria that all external professional organizations must meet include:

1. Significant experience in each of their industries and with similar institutional client funds.

2. Qualified and respected professionals working for SCERA's account.

3. A track record for that organization that would indicate added value to SCERA's investment program in the future.

4. All professional investment organizations rendering advice or managing assets

must file a Form ADV with the US Securities & Exchange Commission in accordance with the Investment Advisors Act of 1940 or be exempt from such filings, such as mutual funds, bank investment subsidiaries or other exempt organizations or structures.

E. Investment Consultant

The Board may conduct a search for and engage an investment management consultant ("Consultant"). The Consultant is an externally hired investment management consultant that provides objective and ongoing performance evaluation of SCERA's investment managers, compliance monitoring of the investment managers relative to established guidelines and objectives, and consulting advice on various investment issues. At a minimum, the Consultant meets with the Board on a quarterly basis and more frequently with members of the SCERA staff and the Committee.

Roles and responsibilities of Consultant may include the following:

1. Conduct a search for professional investment managers for the Investment funds (as set forth in these initial policies);
2. Upon request, negotiate fee arrangements and other contract terms with the investment managers on behalf of SCERA;
3. Provide the Board with quarterly performance evaluations for each investment manager;
4. Recommend brokerage and custodial services;
5. Make recommendations regarding reaffirmation and modification of these policies on at least an annual basis;
6. Handle certain other matters, primarily reporting, as described elsewhere in this statement. Specific duties will be as per approved contract or contracts with Consultant;
7. Have no conflict of interest in making recommendations and providing investment advice to SCERA, i.e. Consultant cannot recommend external consultants (investment managers, custodians, prime brokers and other consultants) where they would derive economic benefit from that recommendation. Any cross ownership between Consultant and other external consultants that SCERA may contemplate using must be disclosed.

F. Investment Manager(s)

Externally hired investment managers invest the funds on behalf of SCERA pursuant to SCERA's policies and guidelines established for the overall investment program as well as each manager's established investment policies, guidelines and objectives.

The Board is authorized and permitted to engage the services of Investment Manager(s) who possess the necessary specialized research facilities and skilled manpower to meet SCERA's investment policies, objectives and guidelines. Accordingly, the Board requires the Manager(s) to adhere to the "prudent man rule."

All manager guidelines must be in accordance with the Investment Policy Statement of SCERA. All modifications of the Statement will be in writing and signed by the Board as an amendment to this document. Copies of any and all modifications to this document will be forwarded to Consultant, Managers and other interested party(ies).

G. Custodian/Trustee

The custodian/trustee is the Trust Division of a major investment-center bank. Their primary function is to hold in custody all the securities that each of the investment managers manage in their portfolios, except for commingled funds or mutual funds which may be held elsewhere. The custodian issues a monthly report detailing the securities transactions processed during that month as well as a listing of the market values for each security that is in the portfolio at the end of each month.

H. Prime Broker

The prime broker facilitates a role similar to the custodian and primarily will be utilized as a trade settlement agent. In addition, a prime broker will hold custody of assets and prepare and issue account statements. In terms of executing trades, the use of a prime broker will be limited to the facilitation of implementing investment manager strategies designed to take advantage of the investment manager's skill in shorting equity securities, including locating securities to be borrowed for short sales. Execution of purchases, sales, short sales and covers may be accomplished through the prime broker or another executing broker. In addition, the prime broker will be permitted to re-hypothecate securities held in any account at the prime broker in accordance with the prime brokerage agreement. Only investment managers having specific guidelines that allow the shorting of equity securities are to effect dealings with the prime broker.

I. Auditor

The auditor provides an examination and a verification of all the assets in SCERA's investment program.

J. Actuary

The actuary is a hired professional who produces a valuation report on the funding liability of SCERA.

V. INVESTMENT OBJECTIVES

The investment objectives of SCERA are guided by the California Constitution, state statutes and policies adopted by the Board. In general, the Board desires to obtain the optimum return on the portfolio consistent with the assumption of prudent risk. While safety of principal is given primary consideration, the Board believes in both active and passive asset management in order to obtain the highest attainable total investment return (income plus appreciation). Specific investment objectives are as follows:

A. Meet or Exceed Funding Liability

To fully fund the Actuarial Accrued Liability of SCERA.

B. Primary Objectives

To exceed the long-run actuarial assumption for return on assets. The risk to be assumed must be considered appropriate for the return anticipated and consistent with the total diversification of the fund.

C. Secondary Objectives

Secondary objectives are to obtain investment returns similar to funds of comparable size and with similar investment objectives and restrictions and to achieve results for the components of the funds similar to those of relevant investment indices.

D. Time Horizon

In making investment decisions and in evaluating investment performance, the Board shall focus on a long-term investment time horizon of at least three (3) to five (5) years or a complete market cycle; a market cycle being a period of time where there is a bull market followed or preceded by a bear market. A bear market is defined as a period where there is a 15% or greater decline in the S&P 500 Stock Index over two or more successive calendar quarters. A bull market is defined as a period where there is 15% or greater appreciation in the S&P 500 Stock Index over two or more successive calendar quarters.

E. Risk Tolerance

Although pure speculation is to be avoided, the Board appreciates the fact that above average return is associated with a certain degree of risk. See the comments on risk in the Investment Philosophy and the Risk Philosophy sections found earlier in this document.

F. Liquidity Requirements

It is staff's responsibility to maintain sufficient liquidity to meet retiree payroll and other obligations on a timely basis. To accommodate these commitments a level of cash is maintained to meet near-term cash flow requirements but this exposure is securitized by the Plan's cash overlay manager to effectively eliminate "cash drag."

G. Investment for Social Purposes

The Board believes that its primary responsibility is to the members of the Retirement Association and their beneficiaries. Consequently, the Board may not approve investments with less than competitive risk-adjusted expected returns in order to benefit another group of people or some project considered socially desirable. However, the Board may support investments that provide some economic or social benefit if they fit into the Plan's investment program and offer competitive risk-adjusted expected returns.

VI. ASSET ALLOCATION TARGETS AND RANGES

A. It shall be the policy to invest assets in keeping with the following targets and ranges:

Asset Class & Style	Trigger for Physical Rebal	Physical Rebal Target	Policy Target %	Physical Rebal Target	Trigger for Physical Rebal
Core Plus Fixed Income	**11.0%**	**12.5%**	**13.0%**	**13.5%**	**15.0%**
Bank Loans		2.75%	3.0%	3.25%	
Unconstrained Bonds		2.75%	3.0%	3.25%	
Total Alternative Fixed Inc	**4.0%**	**5.5%**	**6.0%**	**6.5%**	**8.0%**
Total Fixed Income	**17.0%**	**18.0%**	**19.0%**	**20.0%**	**21.0%**
Core Real Estate			10.0%		
Farmland			5.0%		
Infrastructure			3.0%		
Total Real Assets	**15.0%**	**18.0%**	**18.0%**	**18.0%**	**21.0%**
Broad Mandate		7.75%	8.0%	8.25%	
Large Cap		8.0%	8.5%	9.0%	
Small Cap		4.75%	5.0%	5.25%	
Total US Equities	**19.5%**	**20.5%**	**21.5%**	**22.5%**	**23.5%**
Non-US Equities	**19.5%**	**20.5%**	**21.5%**	**22.5%**	**23.5%**
Global Equities	**13.0%**	**14.0%**	**15.0%**	**16.0%**	**17.0%**
Total Equities	**55.0%**	**56.0%**	**58.0%**	**60.0%**	**61.0%**
Global Asset Allocation[1]	**3.0%**	**4.5%**	**5.0%**	**5.5%**	**7.0%**
Cash Overlay[2]			0.0%		
Equity Ins. Risk Premium[3]			3.0%		
Total Overlay Strategies			**3.0%**		
Total Strategic Portfolio			**100.0%**		
Opportunistic Allocation[4]			**0-6%**		

[1] Given Global Asset Allocation benchmark exposures to global equities and US fixed income the resulting total policy exposures at the Plan level are approximately 61% Total Equity and 21% Fixed Income. In addition, at the Plan level equities are split approximately 50 % US and 50 % Non-US.

[2] A cash balance is maintained for cash flow purposes but is securitized resulting in minimal economic cash exposure.

[3] The equity insurance risk premium (EIRP) capture strategy has a targeted notional value of 3.0% of Plan assets. This is run as an overlay against US equity assets held elsewhere in the Plan and the cash set aside for "margin" is securitized with the cash overlay. Because the EIRP is run as an overlay it is excluded from the policy allocations that total 100%.

[4] In August 2015 SCERA committed $75 million, or approximately 3% of Plan assets, to the Davidson Kempner Special Opportunities Fund III (DK SOF III), a distressed debt opportunity fund. This investment has a lock-up of 3.5 to 5.5 years. As it appeared unlikely the full commitment would be called, in July 2016 SCERA committed a further $25 million to DK SOF III-A, a "special purpose vehicle" with a 3 to 4 year lock-up. After the investment period for SOF III and III-A ended and with only half of the commitment having been called, SCERA committed an additional $50 million in July 2017 to DK SOF IV with a lock-up of 3.5 to 5.5 years. All of the DK investments are part of the Opportunistic Allocation and are funded from outside the strategic asset allocation. Results are aggregated for the manager with performance benchmarked first against a dollar-weighted return on the Plan's Total Fund Policy Index and second against the Plan's assumed rate-of-return.

B. The Plan's cash overlay manager is authorized to rebalance using derivatives with the following targets and ranges:

Asset Class & Style	Trigger for Derivative Rebalance	Policy Target %	Trigger for Derivative Rebalance	Overlay Contracts/Notes
Total Fixed Income	**18.0%**	**19.0%**	**20.0%**	US Treasuries
Total Real Assets		**18.0%**		Not Applicable
Broad Mandate	7.0%	8.0%	9.0%	S&P 500/S&P Midcap/ Russell 2000
Large Cap	7.5%	8.5%	9.5%	S&P 500
Small Cap	4.5%	5.0%	5.5%	Russell 2000
Total US Equities		**21.5%**		
Non-US Equities	**20.5%**	**21.5%**	**22.5%**	MSCI EAFE & Emerging Market Equity
Global Equities	**14.0%**	**15.0%**	**16.0%**	US & Non-US Equity
Total Equities	**56.0%**	**58.0%**	**60.0%**	
Global Asset Allocation	**4.5%**	**5.0%**	**5.5%**	Equity & Treasuries
Total Strategic Portfolio		**100.0%**		

VII. Rebalancing and Cash Management

A. Implementation of changes in the strategic or long-term policy asset allocation is a process and identification and funding of investment managers may not be uniform. As such, full or partial funding of new policy allocations may result in disharmony with established target policy allocations and their respective ranges. Under these circumstances staff will make every reasonable effort to minimize the length of time to reach the new policy asset allocation and execute the transition most efficiently.

B. The asset allocation ranges established by this Policy represent the Board's appetite for risk and the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will, over the long run, provide the greatest risk adjusted return to the fund.

C. Observations of the investment portfolio shall be conducted on an ongoing basis, and shall be based upon data provided by SCERA's investment custodian bank or prime broker where available. For investments without daily valuations SCERA staff will utilize their best estimates, utilizing the investment's most recent valuation and period-to-date asset class returns. It shall be the responsibility of SCERA staff, or the Plan's cash overlay manager if rebalancing authority is delegated to said manager, to rebalance among the allowable strategic asset classes and individual portfolios at such time that any of the asset classes fall outside of the prescribed ranges.

D. Regarding rebalancing with derivatives, at the point that either the minimum or maximum trigger for a derivative rebalance for any asset class with an exposure range in the derivative rebalancing table above has been breached, all asset classes and sub-asset classes detailed in said table shall be rebalanced back to the predefined targets using derivative exposures to the extent reasonable given contract sizes. Real Assets and Alternative Fixed Income may be excluded from the derivative rebalance due to a lack of cost-effective derivative contracts. The monitoring and execution shall be undertaken by the cash overlay manager or staff utilizing outsourced trading of the overlay derivatives.

E. Regarding rebalancing with physical securities, it is understood that, for a variety of reasons, it cannot be as mechanical as rebalancing with derivatives. These reasons include near-term cash planning needs, the illiquidity of some asset classes and because the sum of the targets for physical rebalancing will typically not add to 100% so they cannot all be reached. This is not of particular concern because the major asset class exposures (US Equities, Non-US Equities and Fixed Income) should remain close to their policy weights after consideration of the cash overlay program. The physical rebalancing ranges are wider than those for derivative rebalancing because of the greater cost of transacting with physicals but keep manager mandates from drifting too far from their intended allocations. Generally, at the point that any minimum or maximum trigger in the table above for physical rebalancing is breached, staff will move the detailed mandates and asset classes back toward the matching target for physical rebalancings. However, a "partial rebalancing" may be appropriate given cash needs and because the matching physical rebalancing target weights may not add to 100% and, as a result, cannot all be reached.

F. With the consultant's input, staff will have the authority to affect the following:

1. include or exclude illiquid investments from the rebalancing program,

2. exclude opportunistic investments from the rebalancing program,

3. conduct a partial rebalancing in an effort to raise cash for near-term needs or simply because it is not possible to reach all of the matching physical rebalancing targets,

4. delay or alter the rebalancing from the strict asset allocation targets and ranges stipulated in the Policy and

5. engage a transition manager to assist in the rebalancing.

When the physical rebalancing is modified by staff the focus shall be on the overall risk/return characteristics of the Plan's investments, liquidity constraints, and the Plan's cash flow needs. Consistent with the Derivatives Policy, Section

IXB, derivatives will not be used to leverage Plan assets. Although authority to rebalance as stated above is delegated to SCERA staff, a report detailing the movement of funds necessary to carry out that rebalancing shall be provided to the Investment Committee at the next scheduled meeting following the completion of the rebalancing transactions. If a transition manager is utilized, a post-trade analysis report will also be provided.

G. When managing the investment of contributions, or withdrawals from the Plan, staff will have the discretion to address the potential illiquidity of certain investments, such as real estate, and the corresponding additional time that may be necessary to transact. When raising/investing cash staff will liaise with the overlay manager to realign derivative exposures as necessary. Additions to and withdrawals from the Plan will generally be accomplished with an effort to move the Plan's asset allocation toward its policy targets with consideration for near-tern cash needs and the liquidity of the mandates impacted. If there are any remaining overweights and underweights in the liquid strategic mandates or asset classes staff will generally attempt to spread them proportionately while also working to manage transaction costs.

VIII. Investment Guidelines & Structure

A. General

1. All investments shall comply with all applicable laws of the State of California governing the investment of the pension funds of counties.

2. All securities transactions shall be executed by reputable broker/dealers or banks, including any bank acting as custodian, and shall be on a best execution basis.

3. Investments shall possess value and quality corroborated by accepted techniques and standards of fundamental economic, financial and security analysis.

4. There will be instances where the preferred method of implementing a strategy is through a commingled vehicle (e.g., trust, mutual fund, limited liability company or limited partnership). Such vehicles are managed in accordance with their own governing documents. In case of any investment in a commingled vehicle, the governing documents of such vehicle will control. As a result, in the case of commingled vehicles, guidelines found in this Policy are an expression of the general desirability of specific attributes of such investment strategies, and are not binding on the investment manager. When considering an investment in a commingled vehicle, staff will review with the Investment Committee the controlling guidelines of the vehicle and contrast them with the guidelines

in this document to assess appropriateness. In the case of separately managed accounts, the guidelines found in this Policy shall control.

5. In cases where a separate account manager may wish to use a commingled vehicle (typically which they themselves manage) to gain exposure to a subset of the market in which they invest the use of said vehicle will require prior approval by SCERA and should not cause a violation at the total portfolio level of applicable investment guidelines found in this Policy. However, as noted above, commingled vehicles are managed in accordance with their own governing documents and guidelines. As a result, SCERA may give approval to a separate account manager to invest in a commingled vehicle that generally complies with SCERA guidelines but may employ strategies not specifically authorized by these guidelines. Such situations will be addressed on an individual basis but in all cases the use of such vehicles will require prior approval by SCERA.

B. Core Fixed Income

The core fixed income portion shall be invested in marketable and diversified securities including, but not limited to the following:

1. Obligations of the US Treasury;

2. Obligations with a direct or implied guarantee by an agency of the United States;

3. Certificates of deposit and banker's acceptances;

4. Commercial paper (including variable rate notes). A minimum of 80% should be rated A1/P1 with no more than 20% rated A2/P2. CP 4(2) private placement holdings are permitted;

5. Corporate notes and bonds, and other fixed income investment, including:

   a. US Dollar denominated bonds of foreign issuers (Yankee Bonds)
   b. Developed & Emerging Market Local Currency Debt
   c. Eurobonds
   d. Municipal Bonds
   e. Asset Backed and Collateralized Securities, such as Auto Loans, Credit Card Debt and Manufactured Home Debt
   f. Mortgage Backed Securities, including CMOs, PACs and other structures
   g. Commercial Mortgage Backed Securities
   h. Section 144A Private Placements
   i. Collateralized Bank Loans and Collateralized Debt Obligations

j. Warrants, Preferred Stocks and Convertible Securities
k. Credit Default Swaps

6. Core fixed income portfolios must have an overall, market value weighted average quality of no more than four notches below the average quality rating of the Plan's Core Fixed Income benchmark. For example, if the benchmark's average credit quality is AA then the portfolio shall maintain a minimum average quality of A-. In no circumstance will the average credit quality be allowed to fall below BBB (BBB- in cases where the manager has been given explicit additional flexibility). For purposes of determining compliance with ratings, if a security is rated by two rating agencies (e.g., Moody's and S&P), then the lower of the two shall apply. If a security is rated by three agencies (i.e., Moody's, S&P, and Fitch), then the middle rating shall apply. If a security is only rated by one rating agency, then the lower of the rating agency rating or the manager's internal rating shall apply. If the average credit quality of the benchmark is a split rating, the lower of the two ratings will be used to calculate the minimum average credit quality required for the managers.

7. Core fixed income managers may purchase out-of-benchmark or "plus" sector securities in their attempt to "add value" over the benchmark. These plus sectors will include Below Investment-Grade or "High Yield", Emerging Market Debt and Non-Dollar Bonds and will be limited to a total maximum of 20%. Individually, each plus sector shall be limited as follows:

   a. High Yield maximum exposure of 15%
   b. Emerging Market Debt maximum exposure of 20%
   c. Non-Dollar Bond maximum exposure of 20%

8. Up to a maximum of 2% of the portfolio may be invested in bonds rated CCC/Caa or lower.

9. Foreign-denominated notes or bonds are permitted up to 20% of the portfolio on a cost basis. Forward currency contracts, cross hedging of currencies, and covered currency options are allowed, but only for hedging purposes; a maximum of 10% of the portfolio may be in unhedged non-dollar issues and hedging may not exceed 100% of any non-dollar currency exposure. In cases where the manager has been given explicit additional flexibility, the manager has the ability to purchase currency positions for non-hedging purposes (i.e., naked currency positions). Naked currency exposures will be limited to 10% of the portfolio.

10. Fixed income securities of any one issuer shall not exceed 10% of the total

bond portfolio at the time of purchase. This does not apply to issues of the US Treasury, other federal agencies or securities guaranteed by the US Government (or repurchase agreements involving such issues).

11. Holdings of any individual corporate debt issue must be 10% or less of the value of the total issue. This does not apply to issues of the US Treasury, other federal agencies or securities guaranteed by the US Government (or repurchase agreements involving such issues). Mortgage or asset backed securities that are credit independent of the issuer shall be limited to 25% of the value of the total issue or pool.

12. The average weighted duration of the portfolio, including derivative positions (e.g., futures, options, and swaps) shall range within +/- 20% of the appropriate benchmark's duration. In cases where the manager has been given explicit additional flexibility, the allowable range for average weighted duration shall be +/- 40% of the appropriate benchmark's duration. Should the manager wish to extend duration beyond the previously stated ranges, the manager shall have the ability to ask staff for an exemption.

13. If a mortgage specialist is engaged to manage a Core Fixed Income mandate all of the Plan's Core Fixed Income guidelines will apply with the following exceptions:

    a. By their nature a mortgage specialist will have greater exposure to securities of lower "quality" based on rating agency ratings though many of these securities may be purchased at well below their maturity value. Such a manager will be limited to a maximum total exposure in plus sector securities including Below Investment Grade, Not-Rated, Emerging Market Debt and Non-Dollar Bonds of 35%. There will be no separate lower limit on High Yield but the above individual limits on Emerging Market Debt and Non-Dollar Bonds will apply.
    b. Due to the nature of mortgage securities a portfolio of mortgage securities will typically possess an average duration that is shorter than that of the benchmark. As a result, such a manager will be given the additional flexibility to manage the portfolio's average weighted duration to within a range around the appropriate benchmark's duration of +/- 40%. (The "appropriate benchmark" for duration guideline purposes may be either the primary or secondary benchmark or a combination of the two as determined by staff with input from the Plan's investment consultant and manager.)
    c. The 2% limitation on exposure to securities rated CCC/Caa or lower will not apply.

C. Alternative Fixed Income

Alternative fixed income consists of bank loans and unconstrained bonds. It is expected that both components will provide further diversification and additional downside risk protection.

For purposes of determining average credit quality and compliance with ratings, if a security is rated by two rating agencies (e.g., Moody's and S&P), then the lower of the two shall apply. If a security is rated by three agencies (i.e., Moody's, S&P, and Fitch), then the middle rating shall apply. If a security is only rated by one rating agency, then the lower of the rating agency rating or the manager's internal rating shall apply. In the event of a security with no rating from a major rating agency the manager's internal rating shall apply.

Bank Loans

1. Bank Loan strategies will invest in securities including, but not limited to:
   a. Bank Loan obligations (private or public)
   b. Publicly traded bonds
   c. Private placements (including Section 144 A Private Placements/Regulation S offerings)
   d. Closed end funds, mutual funds, and/or limited partnerships
   e. Cash and/or cash equivalents (e.g., commercial paper, repurchase agreements, money market instruments, certificates of deposit, and bankers' acceptances)
2. The maximum exposure to non-US Dollar denominated investments shall be 20%.
3. The minimum level of bank loan investments shall be 75%.
4. The maximum level of below investment grade bonds shall be 25%.
5. The maximum level of Section 144A Private Placements/Regulation S offerings shall be 25%.
6. The maximum level of investments originated, placed, underwritten, structured or managed by the Investment Manager (or affiliates) shall be 10%.
7. The maximum level invested in a single obligor shall be 5%.
8. The maximum level of issues that belong to a single industry group (as defined by the Credit Suisse Leveraged Loan Index or another mutually agreed upon and appropriate index) shall be 25%.
9. The maximum use of leverage on the net asset value of the portfolio shall not exceed 5% and may be used for the acquisition and financing of investments.
10. Derivatives such as forward currency contracts may be used to hedge the currency exposure of the non-Dollar portion of the mandate.

11. Other than in "work out" or restructuring situations for loans with companies or affiliates already represented in the portfolio, bank loan managers will not initiate equity or equity warrant positions. Because bank loans may be extended to more levered businesses they can result in "work out" or restructuring situations. These circumstances may result in the holding of equity positions or equity warrants on a standalone basis or as part of a package of investments in the borrower. As a result, the prohibition regarding the holding of certain "equity securities . . . not traded on a national exchange . . . " (see Section IX. Prohibited Investments) does not apply to bank loan portfolios. However, the total exposure to equities and warrants will be limited to 3% unless specifically authorized by the Board.

Unconstrained Bonds

Given the nature of Unconstrained Bond strategies they will invest in a wide variety of securities including, but not limited to, those invested in by SCERA's Core Plus fixed income managers. For purposes of the Unconstrained Bond guidelines, an emerging market shall be defined as any country not designated by the World Bank as a high-income OECD (Organization for Economic Cooperation and Development) member country. Also employed are the controlled use of derivatives and "shorting." Unless otherwise stated, all constraints are based on current market values.

1. Duration shall range from -3 to 8 years.

2. Minimum average portfolio quality shall be BB- and no more than 55% of the strategy shall be rated below BB-.

3. The purchase of common stock or derivatives linked to common stock is prohibited. The exception is the allowed use of VIX volatility futures which may be used in "tail risk" hedging or relative value positioning.

4. Long or short positions in derivatives and forward-settling transactions including, but not limited to, futures, options, and swaps, are allowed. The writing of options is only allowed on currencies, fixed income securities, and fixed income-linked derivatives and is an exception to the Plan's Derivatives Policy (contained within the Investment Policy Statement). The use of swaps may include interest rate swaps and credit default swaps. The manager may not, under any circumstances, utilize external borrowing to amplify portfolio risks.

5. Holdings of any individual issue or issuer must be 5% or less of the strategy. This does not apply to issues of the US Treasury, other federal

agencies or securities guaranteed by the US Government and sovereign debt of OECD (The Organisation for Economic Co-operation and Development) countries.

6. Regarding exposures to individual non-US developed market sovereigns, those rated AA+ and above are unlimited, those rated from A- to AA are limited to a maximum of 15% and those rated BBB+ and below are limited to a maximum of 10%.

7. Exposure to each emerging market sovereign must be no more than 5% of the strategy.

8. Emerging markets shall be no more than 50% of the strategy.

9. For corporate debt securities rated investment grade the holding of any individual issuer must be no more than 5% of the strategy. For corporate debt rated below investment grade the holding of any individual issuer must be no more than 3% of the strategy.

10. Currency positions may be held without owning an underlying security. Each individual G10 currency exposure shall be limited to +/- 20% of the portfolio's total notional value. Each individual emerging market currency exposure shall be limited to +/- 5% of the portfolio's total notional value.

D. Real Assets

Real Estate and Farmland

The role of real estate as an asset class is to provide a risk and return profile that falls between stocks and bonds but provides diversification benefits relative to both asset classes.

1. Investments will be made primarily through open-ended commingled fund vehicles that are well diversified by number of properties, by property type and by geography.

2. The primary focus of the real estate vehicle should be on the direct ownership of predominantly unleveraged institutional quality real estate, however the fund may also invest in farmland and own Real Estate Investment Trusts (REITs) and real estate limited partnerships.

3. Individual properties may be leveraged, but the fund's portfolio as a whole should not be leveraged more than 33% for investment designated as "Core" funds and farmland and not more than 60% for those investment funds designated as "Value Added" funds.

Infrastructure

Like real estate and farmland, the role of infrastructure is to provide a risk and return profile that falls between stocks and bonds but provides diversification benefits relative to both asset classes. Infrastructure is also attractive because of its strong cash-flow characteristics, downside protection and the long-lived nature of the assets which corresponds to the long-life of the Plan's obligations. The purpose of this asset class is to achieve attractive risk-adjusted returns (relative to the public equity markets) and enhance the overall diversification of the Plan's investment portfolio.

1. The primary risks associated with infrastructure investments include investment manager risk, political risk, liquidity risk and market driven risks. To help mitigate these risks the Plan will seek diversification over time across project types and major regional areas, both domestically and internationally. The infrastructure portfolio will generally accept the currency risks consistent with the geographic exposures as infrastructure managers typically do not hedge currency risk.

2. The infrastructure portfolio will primarily be invested in generally well established cash-flowing projects with developed assets and structures. In addition, the portfolio may invest in assets that are currently constructed but may require immediate capital improvements or expansion.

3. The asset class is typically accessed through private funds which are partnerships with a general partner that manages the assets and limited partners with protection against losses beyond their original investment. These partnerships may be open-ended commingled funds which live in perpetuity or, more commonly, closed-end funds with a finite life. SCERA has a preference for open-ended funds because of the greater level of relative liquidity and generally lower fee structures. The Plan may also consider investing through a secondary offering whereby SCERA would purchase a partnership interest at a negotiated price from a current limited partner in an existing fund or through co-investments or direct investments. Last, infrastructure may be accessed through the public securities markets but these have different risk characteristics and, by themselves, may not be well diversified.

4. Due to the regulated nature of much of this asset class a higher level of leverage is considered prudent than with real estate. Individual assets may be leveraged but generally there will be little to no leverage at the fund or partnership level. SCERA has a preference for "Core" infrastructure and funds of this nature generally possess leverage that aggregates at the fund-level to 50% or less.

E. Equities

With regard to all equities (US, non-US and global) the following guidelines shall apply.

1. In keeping with the Plan's philosophy that long-term mandates be fully invested, equity manager accounts shall hold no more in cash and cash equivalents than 5% excluding those amounts held i) as a result of cash flows or ii) for the purpose of meeting future obligations of securities in the portfolio. On an exception basis the Investment Committee may grant a cash limit of up to 10%.

2. There is no minimum market capitalization for holdings of individual issues. However, each holding shall be of a sufficiently low percentage of average daily trading volume to ensure adequate liquidity or sale.

3. Futures and option purchases may be used as a substitute for equity securities provided that they are 100% collateralized by highly liquid, low volatility fixed income securities and do not represent leveraging of the assets. Equity managers will also have the authority to purchase exchange traded funds (ETFs) for the purpose of cash equitization and repositioning of the portfolio but will not be used to lever the portfolio.

4. Initial Public Offerings (IPOs) are allowed in equity portfolios but the total is limited to 5% of each manager's account at purchase. For "Partially Paid" issues the weight utilized for the purpose of this guideline shall be the "Fully Paid" amount. This limitation no longer applies to securities once they are listed or traded on an exchange.

5. Section 144A Private Placement securities are allowed in equity portfolios but limited to a total of 5% of each manager's account at market. Should market movement cause a manager's portfolio to be out of compliance with this guideline the manager is expected to be in compliance within a reasonable period of time.

6. Preferred and convertible preferred stocks may be held. Publicly traded Real Estate Investment Trust (REIT) shares may be held and are considered part of the allocation to stocks.

7. No more than 5% or the benchmark weight plus 2.5%, whichever is higher, of any one manager's portfolio shall be invested in the securities of any one issuing corporation at market. Should market movement cause a manager's portfolio to be out of compliance with this guideline the manager is expected to be in compliance within five business days.

8. Investments in any corporation should not exceed 10% of the outstanding shares of the corporation.

9. Assets in each managed account not invested in equity securities shall be kept invested in appropriate money market instruments by the principal custodian bank, the prime broker or the treasurer.

10. With regard to partial short extension strategies, where the manager has specific authority to effect short equity positions, the investment manager shall hold a portfolio of diverse long positions that comply with the above guidelines regarding position limits. The investment manager shall also hold a portfolio of diverse short positions such that at the time of short sale, no security position will exceed 1% of net assets in the account. Should the market value of an individual short position exceed 2% of net assets, the investment manager is expected, within 5 business days, to reduce the position to 2% or less of net assets in the account.

F. U.S. Equities

In the discretion of the equity managers they may invest solely in equity securities as defined, subject to the following:

1. Investments shall be diversified with the intent to minimize the risk of large losses to the Fund. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations, or industries.

2. Sector concentration will be limited as follows:

   a. Business sectors representing less than 10% of the style index will be limited to a maximum net exposure of 25% of the individual portfolio weighting.
   b. Business sectors representing 10% to 20% of the style index will be limited to a maximum net exposure of 30% of the individual portfolio weighting.
   c. Business sectors representing 20% to 30% of the style index will be limited to a maximum net exposure of 40% of the individual portfolio weighting.
   d. Business sectors representing over 30% of the style index will be limited to a maximum net exposure of 10% over the individual portfolio weighting.

   Some quantitative equity managers do not track sector concentrations as noted above due to their mathematical process. In these cases, staff will monitor compliance with the sector concentration limits and report any exceptions to the Investment Committee on a quarterly basis.

3. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on major exchanges including NASDAQ in the US Equity holdings may include American Depository Receipts and equity securities of foreign companies traded on registered US exchanges or NASDAQ, up to 25% of any one manager's portfolio.

4. For the purposes of this policy, small cap stock portfolios are defined as having market capitalizations that do not materially exceed the weighted average capitalization of the appropriate benchmark index with which they are being evaluated (see the US Small Cap benchmark in Supplement A: Performance Measurement Standards). Portfolios with weighted average capitalizations which materially exceed their respective benchmark are included in the large cap US equity commitment.

G. Non-US and Global Equities

1. Diversification

It is expected that non-US investments will be spread broadly around the world. It is anticipated that the manager will invest in at least ten different countries. The non-US equity portfolio is expected to be invested primarily in countries which make up the Morgan Stanley Capital International (MSCI) All Country World ex-US Investable Market Index (ACW ex-US IMI). Non-US equity managers may also invest in emerging market countries. Each manager will be limited to a maximum exposure in emerging markets of two times the benchmark weight. In addition, each manager should not invest more than 25% of its assets in the securities of companies in the same industry or invest more than 10% of its assets in any single issuer at the time of purchase (except for US government issuers) nor hold more than 10% of any issuer's voting securities. Investments should not be made to exercise control. Each manager should not invest more than 10% of its assets in securities that are not readily marketable.

The global equity portfolio is expected to be invested primarily in countries which make up the Morgan Stanley Capital International (MSCI) All Country World Investable Market Index (ACW IMI). For global equity managers, the percentage of US and non-US equities should each be within a range of +/- 25% around their respective benchmark weights. It is understood that the guidelines with the manager may express these ranges in specific percentages. In this case, the percentage ranges should be consistent with the +/-25% range around the benchmark weight at the time they are established and updated when the benchmark weights for US and non-US equities change materially. For global equity managers, the maximum allowed allocation to emerging markets will be two times the benchmark weight.

2. Currency Hedging

It is expected that the manager will use forward currency contracts and currency and stock index futures contracts and related options and transactions to hedge currency exposures. It is preferred that currency exposures be un-hedged, but may periodically be up to 100% hedged for a specific country or up to 30% of the total portfolio at the manager's discretion. Such transactions should not be speculative in nature and should not exceed the value of underlying securities holdings. The fund should not use naked currency positions.

3. Guidelines for Manager(s) Granted Asset Allocation Flexibility

Those global equity managers granted additional asset allocation flexibility will adhere to the following:

a. Purchase of instruments that can be converted into equity (except for convertible preferred stocks) is prohibited.
b. The purchase of ETFs, currency swaps, forward currency contracts, and currency futures is allowed.
c. The purchase of options on stock indices, listed stocks, and currencies is allowed.
d. A maximum of 10% non-equity exposure (inclusive of cash).
e. A maximum 5% exposure to a single ETF.
f. A maximum 25% weight to ETFs, derivative products, and convertible preferred stocks combined.
g. Individual currency exposure is limited to +/- 15% relative to the currency's weight in the benchmark. This supersedes the naked currency prohibition provided above.
h. Total emerging market currency exposure is limited to +/- 15% relative to the total emerging market benchmark weight. This guideline is exclusive of the euro which may be utilized by some emerging market countries.

H. Overlay Strategies

1. Cash Overlay

The purpose of the cash overlay program is to securitize the Plan's physical cash so a cash balance can be maintained while the economic exposure of the cash balance is virtually eliminated and is consistent with the Plan's policy target allocation for cash of zero.

a. The cash overlay program will "securitize" the cash with the use of equity and Treasury futures and may use currency futures or forward contracts to reduce the tracking error of the non-US equity exposure versus the non-US equity benchmark. The program may be implemented either by internal staff utilizing outsourced trading or by a specialist overlay manager.

b. A certain minimum level of actual cash is maintained to provide liquidity for necessary monthly cash outflows and to provide liquidity during times of market dislocations or when there are large bid-ask spreads in the markets for physical securities (equities and fixed income). The approximate minimum level of cash is one percent of Plan assets but the cash level may drop below this from time-to-time at the discretion of staff and with input from the Plan's consultant.

c. Staff, with input from the Plan's consultant, works to limit physical cash to minimize the effect of the absence of active management with the overlay program and the "basis risk" resulting from the imperfect match between the futures used and the relevant asset class benchmark. Physical cash levels may be elevated at times when providing liquidity for the medium term needs of the Plan, such as for funding retiree payroll and new investment mandates. Basis risk is more significant in non-US equities and fixed income where the most efficient contracts to utilize are less closely matched to the asset class benchmarks. For example, in fixed income a basket of US Treasury futures will be used which will match the duration of the benchmark but lack the benchmark's exposure to mortgages, credit and asset backed securities.

d. The overlay program will not be used to lever the Plan. The overlay will be limited to and approximately equal to the size of the Plan's cash balance, including Plan-level cash and cash held in the accounts of certain managers. Managers may be excluded from the overlay program at the discretion of staff, with input from the Plan's consultant, if the manger uses cash intentionally (e.g., duration management by fixed income managers or tactically by a balanced manager) or the manager securitizes their own cash. In addition, because the overlay will be using unaudited daily custodial valuations staff, with input from the Plan's consultant, may exclude a portion of the cash from the overlay program. If a cash flow occurs to or from the Plan's cash balance of a size deemed by the manager to be of significant size, then an approximately equal amount of futures contracts will be put-on or taken-off to keep the total Plan cash balance approximately fully securitized and contracts selected will be such that the Plan's asset allocation will be moved toward its policy targets. When determining the need to effect an overlay transaction, the overlay manager will take into account several factors including, but not limited to, transaction costs, current cash balance, upcoming cash flows, and notional size of futures contracts utilized.

e. The cash overlay program is authorized to use both "long" and "short" futures positions to manage asset class exposures when adjusting for cash inflows and outflows as well as when a rebalancing is triggered.

2. Equity Insurance Risk Premium Overlay

The purpose of the Equity Insurance Risk Premium (EIRP) overlay strategy is to capture the premium that has historically been embedded, and we believe will continue to accrue, to providers of US equity market "insurance." The pricing of Puts and Calls on US equity indices have been such that the writers of such instruments (i.e., the providers of market insurance) have earned over the long-term a premium above the cost of the losses incurred when the owners of the instruments exercise their options (i.e., "claims" are made). Furthermore, the return stream accruing to this strategy has been uncorrelated with the major asset classes in most environments so it appears to offer a diversifying benefit.

a. The strategy is being run as an "overlay" strategy so as to add incrementally to the total Plan return and cash is set aside for the margin requirement. As with most Plan cash, the margin cash is securitized via the cash overlay program. The EIRP strategy "overlays" existing US equities and, as a result, will not introduce leverage at the Plan level.

b. While the return stream from this strategy is expected to be uncorrelated with US equities most of the time it is understood that the correlation may be extremely high for short periods of time in certain market environments. When the US equity market takes a sudden and sharp downturn the strategy will produce negative returns exacerbating the impact of the equity downturn on total Plan returns. In times of such market stress, premiums widen and the strategy tends to turn around performance more quickly than the equity markets recover. As a result, the strategy's correlation with equities again declines and its performance is expected to become increasingly positive over the following months.

c. The manager of the strategy will write approximately equal notional amounts of equity index Puts and Calls to generate a smoother overall return stream. The combined notional value of the Puts and the Calls written will approximate the total economic exposure of the account. The notional value of the account will be a fixed nominal amount to which the manager periodically rebalances as option contracts are rolled or expire and new option positions are established. This notional exposure will be reviewed periodically by staff and adjusted when warranted given material changes in the Plan's total market value and/or adjustments to the sizing of the manager allocation.

d. The manager expects to write primarily S&P 500 Index options (i.e., Puts and Calls on the cash or "spot" index) but may also utilize options on S&P 500 Index Futures. All instruments utilized will be exchange traded.

I. Opportunistic Allocation

The purpose of the Opportunistic Allocation is to enhance the risk and return characteristics of the Total Fund by employing strategies that do not easily fit into the major traditional asset classes. The employed strategies may be return enhancers, risk reducers or a combination of both.

1. The Opportunistic Allocation is not for speculative activities and is intended to be utilized for significant investment opportunities that are created by market dislocations or for new strategies that are compelling but may not have enough history to allow for the development of robust return, risk and correlation assumptions. The Opportunistic Allocation is to be used only for significantly compelling opportunities and in the absence of such opportunities the actual allocation to Opportunistic will be zero.

2. A fully implemented Opportunistic Allocation will have a risk level that is not materially greater than that of the Total Fund.

3. All investments in this asset class are to be approved by the Investment Committee. The Opportunistic Allocation may include a variety of investments that do not fit within the other asset classes. Some of these investments are truly opportunistic in the sense that they may be available for investment only during certain market environments or dislocations

and will therefore, be shorter-term in nature. This asset class may also include longer-term strategies that will play a strategic long-term role in the performance of the Total Fund. The latter types of strategies may be referred to as "incubator" opportunities and will be considered, over time, for graduation out of the Opportunistic Allocation.

4. The primary benchmark for this asset class will be either an equity or fixed income benchmark or a blend of the two depending on the source of funding for the actual allocation. Illiquid asset classes, such as Real Estate, are not expected to be a source of funding. A secondary benchmark for this asset class will be the "opportunity" cost of capital defined as the Total Fund Policy Index return (less the Opportunistic Allocation) or the actuarial assumed rate-of-return or specified benchmark that reflects the unique characteristics of the investment.

5. The Investment Committee will periodically revisit the appropriateness of the mix of investments and their corresponding weights within the Opportunistic Allocation. It is generally expected that new strategies would be reviewed and their future disposition considered in three to five years. For strategies capitalizing on market dislocations staff and the Investment Consultant would question whether the opportunity has been captured and the window of opportunity closed. Strategies considered "incubator" investments would be considered for graduation out of the Opportunistic Allocation and into the long-term strategic allocation. In addition, staff and Investment Consultant will monitor the strategies included in the asset class and make recommendations for termination when appropriate. Staff and Investment Consultant recommendations will be based on a variety of factors including future risk and return prospects of the investment; stability of the investment management team and/or changes in the investment approach; appropriateness of other strategies; and other relevant factors.

6. To allow SCERA to capitalize on opportunities that may have a small window-of-opportunity, such as "dislocation" opportunities, SCERA Staff, with input from the Plan's investment consultant and the Investment Committee Chair or, if unavailable, the Committee Vice Chair, is authorized to expend:

   a. up to two project allocations included in the Plan's investment consultant retainer relationship and/or
   b. funds up to one quarter of one basis point (0.0025%) of the Plan's current market value for due diligence research.

IX. PROHIBITED INVESTMENTS

SCERA funds will not be invested in commodities, venture capital funds, natural resource properties, or equity securities not traded on a national exchange or the NASDAQ National Market; except as specifically approved by the Board or expressly authorized herein. Margin transactions, or any leveraged investments are strictly prohibited, except where the investment manager has been given specific authority. As it pertains to equity extension strategies, the combined absolute value of long and short positions should not exceed approximately 160% of capital, with a net market exposure approximating 100% of capital. Furthermore, in these instances long positions shall compose approximately 130% of the account's net assets and short positions shall compose approximately 30% of the account's net assets.

X. DERIVATIVES

A. Exposure to derivatives must be consistent with the overall investment guidelines.

B. The use of long and short futures, option purchases, swaps, and currency futures are permitted. However, such instruments shall not be used to create leverage or for speculative purposes. Except for the Equity Insurance Risk Premium (EIRP) strategy(ies) and as specifically approved by the Board, managers do not have the authority to write options. Mortgage derivatives with significant options characteristics shall not exceed 5% of the portfolio and should be offset by other mortgage derivatives (e.g. IOs matched with POs, Floaters matched with Inverse Floaters, etc.) or other similar portfolio positions.

C. Futures and options should be used primarily:

1. For defensive currency strategies of non-dollar portfolio holdings.
2. For controlling the duration of fixed income portfolios.
3. For managing yield curve strategies of fixed income portfolios.
4. For control of equity or fixed income exposure during portfolio transitions to overlay cash positions.
5. In cases where the manager has been given explicit flexibility, the purchase of put options may be used to provide downside protection.
6. In cases where the manager has been given explicit flexibility, the purchase of call options may be paired with a straight debt instrument to create a convertible-like risk/reward profile (i.e. a synthetic convertible).
7. In cases where the manager has been given explicit flexibility, the writing of options may be used to provide downside protection.
8. For the "Cash Overlay" program as described above.

9. For the Equity Insurance Risk Premium strategy which writes Puts and Calls to capture the premium accruing to providers of market insurance.

The use of futures and options for speculative purposes is prohibited. To this end, the use of futures and options shall be matched by cash, cash equivalent securities, current portfolio holdings or other matching options or futures positions. All short futures positions shall be matched by equivalent long security positions.

D. Bank loans, convertible securities, preferred stocks, repurchase agreements, collateralized debt obligations, structured notes and similar securitized debt securities are permitted investments.

E. No investment will be made in any newly developed instrument without the explicit consent of the Board.

F. On an exception basis (as determined by staff and Investment Consultant), the Opportunistic Allocation may employ strategies that hold instruments not specifically outlined in the Derivatives Policy.

XI. CASH ALLOCATION

The Retirement Administrator is given authority to invest all short term cash in the approved investment options and report at the next Investment Committee meeting.

XII. AUTHORITY OF INVESTMENT MANAGER IN THE MANAGED ACCOUNTS

A. Subject to the terms and conditions of this statement or the governing documents of a commingled vehicle, if applicable, managers shall have full discretionary power to direct the investment, exchange, liquidation and reinvestment of the assets of the managed accounts. The Committee expects that the investment manager will recommend changes to this Investment Policy Statement at any time when the manager views any part of this statement to be at variance with overall market and economic conditions.

B. The managers shall place orders to buy and sell securities and, by notice to the custodian bank or prime broker, shall cause said custodian or prime broker to deliver and receive securities on behalf of the trust.

C. Except as provided in the governing documents of a commingled vehicle, if applicable, voting of proxy ballots shall be in accordance with SCERA's Proxy Voting Policy Statement or the investment manager's Proxy Voting Policy, if approved by SCERA. The investment managers shall review each proxy ballot and vote them in a manner that preserves and enhances shareholder value. Each investment manager shall keep accurate written records of all proxy votes and, at least annually, provide a detailed report to the Committee documenting all votes.

XIII. REQUIRED REPORTING AND COMMUNICATION BY INVESTMENT MANAGERS

A. The Committee will meet periodically with the Investment Managers to review the following:

1. The manager's investment outlook as it relates to the financial markets;

2. Current composition and future investment strategy for SCERA's investment portfolios;

3. The investment manager will be expected to keep the Committee informed on a timely basis of major changes in its investment outlook, investment strategy and other matters affecting its investment policies or philosophy;

4. The Committee requires that they be informed on a timely basis of any significant changes in ownership, organizational structure, financial condition, or senior personnel staffing of the investment management firm;

5. Whenever the investment manager believes that any particular guidelines should be altered or deleted, it will be the investment manager's responsibility to initiate written communications with the Committee expressing its views and recommendations.

6. Quarterly reports from the Investment Managers which should contain as a minimum (unless otherwise specified in the governing documents of a commingled vehicle):

   a. A compliance statement outlining key policy guidelines and risk controls and an affirmation of compliance.

   b. Asset holdings at market value and as a percentage of the total portfolio, a listing of all purchases and sales and gains and losses.

   c. Performance on a quarterly and cumulative basis from inception against relevant benchmarks.

   d. Key portfolio characteristics such as P/E, P/B, earnings growth, etc., for equity portfolios, and weighted average coupon, duration, weighted average credit quality, sector allocations, etc., for fixed income portfolios, property operating information, geographic and property type distribution, etc., for real estate portfolios.

   e. A list of all trades and brokers used and the percentage of directed trades at least annually. A list of all property transactions for real estate managers.

   f. A statement confirming that all proxies were voted and votes were in accordance with SCERA's Proxy Voting Guidelines at least annually.

XIV. CONTROL PROCEDURES

A. Review of Liabilities

All major liability assumptions regarding number of participants benefit levels and actuarial assumptions will be subject to an annual review by the Board. This review will focus on SCERA's assumptions and actual experience.

B. Review of Investment Objectives

Investment objectives will be reviewed annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives.

It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the investment policy.

B. Review of Investment Managers

The Committee will review total SCERA and individual manager's performance quarterly with its consultant. The Committee will typically meet with each Investment Manager every 18 months to review the goals, objectives, guidelines and performance, including total rate of return of their portfolio(s). In special circumstances (i.e. poor performance, material change in personnel, etc.), more frequent meetings may be scheduled. Any recommendations by the Investment Manager as to changes in the investment guidelines should be submitted to the Board in writing.

The Board encourages the Investment Managers to have open communication with them and the Committee on all significant matters pertaining to investment policies and the management of the SCERA's assets.

Performance reviews will focus on:

1. Comparison of managers' results to funds using similar policies (in terms of diversification, volatility, style, etc.);

2. The opportunities available in equity, real estate, and debt markets appropriate for monitoring individual portfolio investment strategies;

3. Total Fund and Investment Manager Adherence to the Investment Policy Statements;

4. Material changes in the manager organizations, such as in investment philosophy, personnel, acquisitions or losses of major accounts, etc.

D. Service Provider Due Diligence

Staff and/or Consultant shall conduct an on-site due diligence visit to the offices of each manager prior to funding new managers and no less than once every three years. Due diligence will also be performed on other service providers including the custodian, prime broker, investment consultant and potentially "bull pen" or backup managers. (Bull pen managers are those that have been selected and are available for assignment if an existing SCERA manager is terminated.) Staff and/or Consultant shall prepare a written and verbal report of the findings of each visit and submit such findings to the Investment Committee in a timely manner. The report will focus on compliance issues of the firm with regulatory agencies, and SCERA Investment Policy guidelines. Additionally, the visit shall focus on the firm's operational processes as well as internal control processes to ensure an adequate degree of control over SCERA fund assets is in place. At a minimum, the visit will be conducted by at least one SCERA investment staff member and will be accompanied by the Investment Consultant if the manager is on "Watch" status. On-site due diligence of the Investment Consultant will be conducted by SCERA investment staff every one to two years. Staff may recommend the engagement of specialized forensic due diligence consultants when circumstances warrant. The SCERA Administrator and Trustees may elect to participate in any of the on-site visits.

E. Manager "Watch" Status

A manager may be placed on "Watch" status for:

1. failure to meet one or more of the standards, objectives, goals, or risk controls as set forth in this policy statement,
2. violation of ethical, legal, or regulatory standards,
3. material changes in the ownership of the firm or personnel changes,
4. failure to meet reporting or disclosure requirements,
5. failure to meet performance objectives or goals,
6. any actual or potentially adverse information, trends, or developments that the Investment Committee or Board feels might impair the managers ability to perform currently or in the future.

The Investment Committee or Board may take action to place a manager on Watch status. Managers placed on Watch status shall be notified in writing, including the reason for the action and the required remediation. Watch status is an optional interim step that may be used to formally communicate dissatisfaction to the investment manager and the potential for termination. Watch status is not a required step in terminating a manager. Watch status will normally be for a period of six months, but the time frame may be determined by action of the Investment Committee or Board at the time a manager is placed on Watch status. The Investment Committee or Board retains the right to terminate the manager at any time, extend the period of the Watch status, or remove the manager from Watch status at any time.

Watch status indicates that the manager shall be subject to increased monitoring for policy compliance, focusing on the remediation of the factors that caused the manager to be placed on Watch status. The manager on Watch status shall become a regular reporting item on the Investment Committee agenda and staff or Consultant shall report on the progress of the manager in the remediation of the dissatisfaction at each meeting. No additional funds shall be allocated to a manager from rebalancing, contributions or other sources, while they are on Watch status; however funds may be withdrawn for rebalancing or other cash needs.

XV. PERFORMANCE EXPECTATIONS

A. The most important performance expectation of the fund is the achievement of long-term investment results that are consistent with the SCERA's Investment Policy Statement. Implementation of the policy will be directed toward achieving a return in excess of the actuarial assumption for return on assets and not toward maximizing return without regard to risk.

In order to ensure that investment opportunities available over a specific time period are fairly evaluated, the Board will use comparative performance statistics to evaluate investment results. Each active Investment Manager and total SCERA invested assets will be expected to achieve minimum performance standards as follows:

1. Rank in the top 40% of an appropriate peer group of actively managed portfolios;
2. Exceed an appropriate benchmark index, net of management fees.

While these performance standards should be achieved over a complete market cycle, the Board will also monitor performance over rolling three- and five-year periods.

XVI. SECURITIES LENDING PROGRAM

A security lending program may be implemented by the Master Custodian or an alternative lending agent as selected by the Board in the belief that it will provide additional income without incurring material additional risk. Important features to minimize risk include indemnification (typically provided by the lending agent) for non-performance by the borrower and the collection of collateral which is marked to market and trued up daily. There may also be limitations, such as a "minimum spread", to prevent the lending of securities at a loss.

For all securities lent, high quality liquid financial assets will be held as collateral, providing a positive margin to each loan executed. In the case of lending US equity securities, US corporate debt securities, non-US corporate debt securities, US government securities and non-US sovereign debt securities collateral will be maintained with a Market Value (MV) of not less than 102% of the MV of the loaned securities. In the case of lending non-US equity securities collateral will be maintained with a MV of 105% of the MV of the loaned securities. Collateral MVs may fall below required levels intra-day due to market movements but will be trued-up to required minimums at the beginning of the next business day.

Acceptable collateral includes cash, securities issued by the US Government or its agencies, sovereign debt and other securities issued and backed by foreign governments which are members of the OECD G10 or possess a credit rating of A+ or better, irrevocable letters of credit, and A1 or P1 rated Commercial Paper. Equity securities (including ETFs, ADRs and GDRs) may also be accepted as collateral but require maintenance of a MV of 106% of the MV of the loaned securities.

SUPPLEMENT A: PERFORMANCE MEASUREMENT STANDARDS

Asset Class	Peer Universe	Relevant Benchmark Index
Overall Fund	Exceed 40th Percentile of Similar Funds	1. Actuarial Assumption (net-of-fees) 2. Blended Policy Benchmark reflecting policy weights & benchmarks for major asset classes
US Large Capitalization Growth	US Large Cap Equity Universe US Large Cap Growth Universe	Russell 1000 Growth
US Large Capitalization Value	US Large Cap Equity Universe US Large Cap Value Universe	Russell 1000 Value
Broad Mandate & Total US Equities	US All Cap Equity Universe	Russell 3000 Index
US Small Capitalization	US Small Cap Equity Universe	Russell 2000 Index
Non-US Equities	Non-US Equity Fund Universe	MSCI All Country World ex-US Investable Market Index ($US basis)
Global Equities	Global Equity Universe	MSCI All Country World Investable Market Index with USA (Gross)
Total Equities	Not Applicable	Pro Rata Blend of Major Asset Class Benchmarks
Core Fixed Income & Total Fixed Income	Bond Fund Universe	Barclays Capital US Aggregate Bond Index Mortgage Specialist Secondary Benchmark: BC US Mortgage Backed Securities Index
Bank Loans	Bank Loan Universe (if available)	CSFB Leveraged Loan Index
Unconstrained Bonds	Not Applicable	LIBOR plus 4.0%/Year
Global Asset Allocation	Global Balanced/TAA Universe	65% MSCI ACWI IMI / 35% BC US Aggregate Bond Index
Core Real Estate	Core Unleveraged Real Estate Universe	NCREIF Fund Index-Open End Diversified Core Equity (NFI-ODCE)
Farmland	Unlevered Farmland Universe	UBS Core Farmland Index (80% Annual / 20% Permanent Crop Leased Farmland) NCREIF Farmland Index
Infrastructure	Not Applicable	Primary: CPI + 5%/Year (Net-of-Fees) Secondary: Blended Benchmark Reflecting Source of Funding from Global Equity and Fixed Income
Total Real Assets	Not Applicable	Pro Rata Blend of Sub Asset Class Benchmarks
Equity Insurance Risk Premium	Not Applicable	3.0% / Year
Opportunistic Allocation	Not Applicable	Primary: Blended benchmark reflecting the source of funds from other asset classes Secondary: Total Fund Policy (less Opportunistic Allocation) Index or the Actuarial Assumed ROR or specified benchmark that reflects the unique characteristics of the investment