Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 12

MEETING DATE: **July 19, 2017**

SUBJECT: **Proposed Restated Master Investment Policy Statement**

SUBMITTED FOR: ___ **Consent** _X_ **Deliberation and Action** ___ **Receive and File**

RECOMMENDATION

SCERS' investment staff and Verus Advisory Services ("Verus") recommend that the Board approve the proposed restated Master Investment Policy Statement ("IPS").

PURPOSE

To establish a restated Master IPS that is consistent with the strategic asset allocation adopted by the Board in January 2017.

DISCUSSION

The current SCERS IPS was adopted in January 2008. The SCERS Board approved a new asset allocation at the January 2017 Board meeting, resulting in the need to revise and restate SCERS' Master IPS. The revised Master IPS is intended to be a governing document that is more principles-based, rather than rules-based, and establishes broad policies that will guide SCERS' investment program at a high level, not at the asset class level. Its primary purpose is to articulate the Board's view on investment philosophy, objectives and strategy, and set policies for governance and implementation protocols.

Over the past several years, SCERS has developed individual asset class IPSs for each of SCERS' primary asset classes. Each individual asset class has a separate IPS that represents the objectives, investment guidelines, allocation ranges, permissible investments, benchmarks, monitoring and implementation protocol for that asset class. The individual asset class IPSs are intended to be more detailed and rules-based compared to the Master IPS, and are supplements to the Master IPS.

At the June 21, 2017 Board meeting, SCERS' investment staff ("Staff") and Verus presented a proposed draft Master IPS, for the Board to review and to provide feedback on. Verus and Staff have taken the Board feedback and created a recommended final Master IPS for Board approval. The materials being presented to the Board include the final document as well as a 'redline' version of the final document, which shows any changes between the draft document that was presented in June and the final recommended document.

Within the redline version, few changes were made to the document other than clean-up and grammatical changes. Two changes worth mentioning include: (1) The addition of an Investment Philosophy related to generating sufficient cash flows to support SCERS in meeting its benefit payment obligations; and (2) The addition of minimum and maximum allocation ranges around the asset allocation targets within Appendix One, SCERS' Asset Allocation Policy.

Related to the minimum and maximum allocation ranges, Staff and Verus determined that at this time tighter symmetrical ranges around asset class targets were warranted over wider asymmetrical ranges, especially within the more liquid asset classes. As you will recall, the idea behind wider asymmetrical ranges is that these could potentially be utilized to increase allocations to more defensive segments of the portfolio such as U.S. Treasuries when markets show signs of dislocation. However, Verus and Staff determined that utilizing wider ranges should be combined with a systematic process defining how and when more extreme defensive positions would be added and reduced during the course of a market cycle. For instance, increasing an allocation to 'safe haven' U.S. Treasuries beyond a normal range would require the ability to time a market in order to avoid adding and reducing exposure at inopportune times. A systematic oriented approach to making these types of timing decisions would either need to be developed internally, or outsourced to a third party. If this type of approach is developed in the future, wider and asymmetric ranges could be considered and incorporated at that time.

As a reminder, the proposed Master IPS is organized into the following sections:

1. Introduction
    a. Description of the Master IPS
    b. Description of how and when SCERS was established, and the primary responsibilities of SCERS
    c. Description of the SCERS Board and its responsibilities in governing SCERS
    d. The applicable laws that SCERS' investment program is managed in accordance to
2. Master IPS Purpose
    a. To establish the policies that will guide the investment program
3. Investment Philosophies
    a. The foundational principles on which the investment program is based, and which drive investment decisions
4. Investment Objectives
    a. The primary over-arching goals of SCERS
    b. Performance objectives
5. Investment Program Governance
    a. Roles and responsibilities of the Board, Staff, Consultants, Investment Managers and Custodian Bank

   b. Implementation Protocols for vendor procurement (investment manager hires and terminations) and portfolio rebalancing
6. Investment Strategy
   a. Rationale for the investment strategy and periodic review of the strategic asset allocation
7. Asset Allocation
   a. Description and objectives of asset categories (Growth; Diversifying; Real Return)
      i. Asset classes will be covered in detail within individual asset class IPSs
8. Risk Management
   a. Identification of investment portfolio risks
   b. High level philosophy on managing risk
9. Portfolio Monitoring
   a. Structure for ongoing reporting of performance, and monitoring of investment managers and strategic partners

SCERS' current investment policy statement is being included for reference purposes.

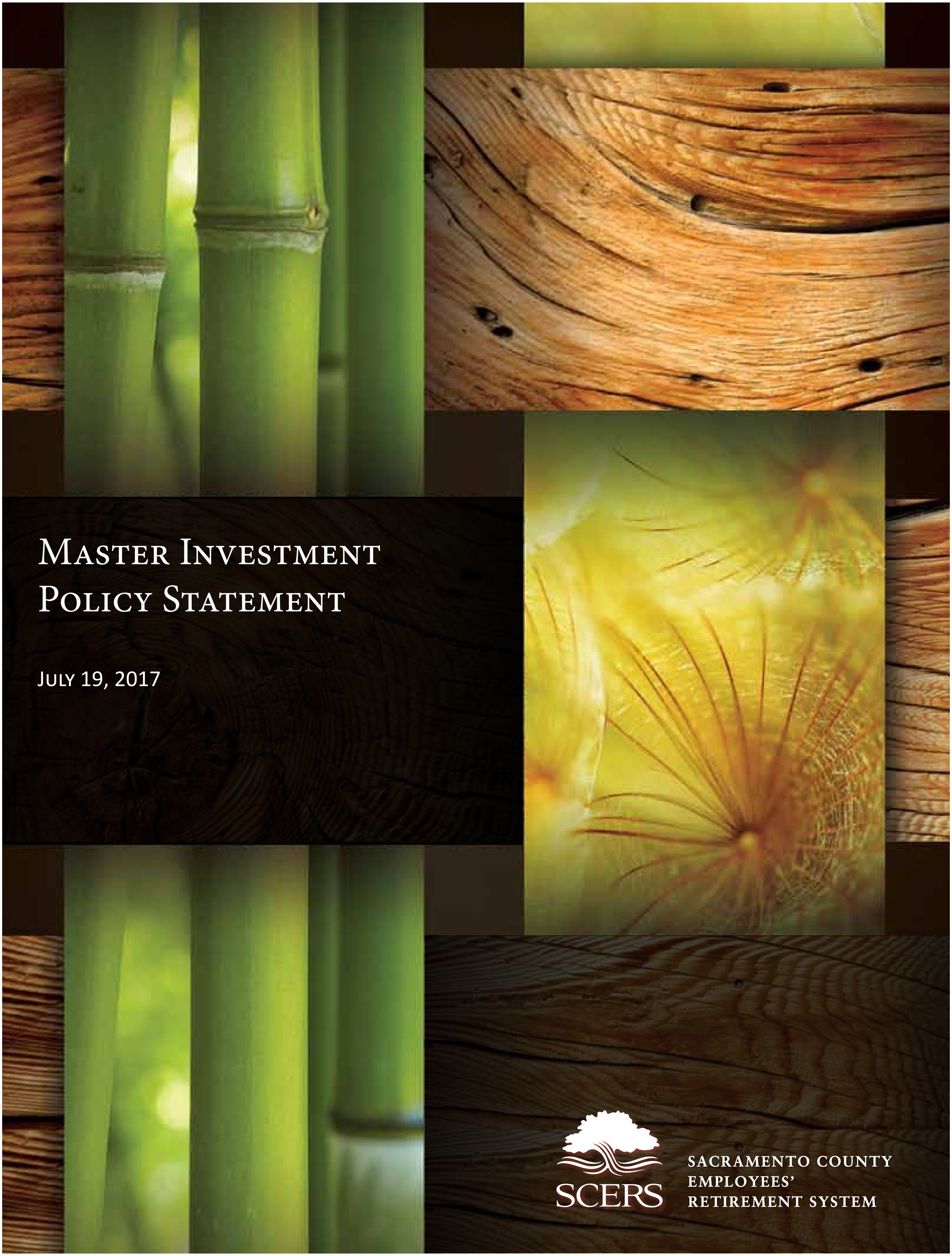
ATTACHMENTS

Recommended Restated Master Investment Policy Statement
Redline version of the updates to the draft Restated Master Investment Policy Statement that was presented at the June 21, 2017 Board meeting
SCERS Investment Policy & Objectives (last amended February 18, 2010)

Prepared by:	Reviewed by:
/S/	/S/
Steve Davis	Annette St. Urbain
Chief Investment Officer	Interim Chief Executive Officer

Master Investment Policy Statement

July 19, 2017



SCERS

Sacramento County Employees' Retirement System

1. Introduction

Investment Policy for the Sacramento County Employee's Retirement System is documented in a Master Investment Policy Statement ('IPS') and supported by individual asset class policy documents. The Master IPS is designed to establish broad policies that will guide SCERS' investment program ('Investment Program'), including Investment Philosophies, Investment Objectives, Plan Governance, Investment Strategy, Risk Management and Portfolio Monitoring.

The Sacramento County Employees' Retirement System ('SCERS' or 'the System') was created on July 1, 1941, by Sacramento County Ordinance #283 as adopted by the Board of Supervisors on April 30, 1941, pursuant to the County Employees' Retirement Law of 1937. SCERS provides retirement, disability, and death benefits for qualified employees of Sacramento County and eleven participating special districts.

A nine-member Board of Retirement ('Board') governs SCERS. The Board has the sole and exclusive responsibility to administer SCERS in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. See California Constitution at Articles XVI Section 17.

In administering the System, SCERS will value open communication, transparency and the consideration of different points of view. It will also follow the highest ethical standards in meeting its fiduciary duties of prudence and loyalty to the System's participants and beneficiaries, and will act solely in the interest of, and for the exclusive purpose of providing benefits and related services to participants and their beneficiaries.

2. Master IPS Purpose

The Master IPS is a principles based document that establishes broad policies that will guide SCERS' Investment Program. It is intended to provide guidance to the Board, Staff, Stakeholders and third party professionals.

The System's individual asset classes have their own dedicated investment policy statements which include detailed information specific to the asset classes. Individual asset class IPSs contain asset class objectives, investment guidelines, ranges, permissible investments, benchmarks, and monitoring and implementation protocols specific to the asset classes. The individual asset class IPSs are included as supporting documents to the Master IPS.

3. Investment Philosophies

The Investment Philosophies represent the System's principles on which the Investment Program is based. All investment decisions for the System are made within the context of these philosophies, which include:

- ◊ Strategic asset allocation has the greatest impact on long-term investment returns and volatility. Using quantitative asset/liability modeling coupled with qualitative evaluation, an appropriate strategic (long term) asset mix target is determined and serves as the guide for the investment allocation throughout market cycles. The qualitative evaluation emphasizes the long-term sustainability of the system, mitigation of large drawdown risk and the ability to achieve long term funding goals.
- ◊ The strategic asset allocation target is a well-diversified portfolio across asset categories and asset classes. However, it is recognized that the portfolio's risk exposure is heavily influenced by equity risk which historically has been favorably correlated with the ability to achieve long term funding objectives.
- ◊ While it is essential to hold to the Investment Program's strategic asset allocation throughout market cycles, the ranges around the targeted asset class allocations allow for marginal adjustments as market opportunities arise. Under normal market conditions, asset category and asset class exposures will be rebalanced to target periodically to enforce a "buy low/sell high" approach across the portfolio.
- ◊ An allocation to low cost investment strategies, including passive strategies, will be used in the most efficient asset classes. Active management strategies, and the fees associated with active management, are acceptable when the expected excess return over the strategy benchmark compensates the System for the active risk taken, and the fee incentives align with the System's interests.
- ◊ Given the long-term nature of the System, investments that offer an illiquidity premium in return for a longer holding or lock-up period will be utilized to the extent that overall liquidity is not imperiled.
- ◊ The strategic asset allocation should generate sufficient levels of cash flow to support the System in meeting its benefit payment obligations.

4. Investment Objectives

A. The primary and over-arching goals of the System are to:

- Provide for current and future benefit payments, i.e. sustain the plan through its useful life.
- Diversify plan assets as its main defense against large market drawdowns, while maintaining reasonable risk exposure to meet return requirements.
- Preserve a degree of liquidity ample to meet benefit payments and capital calls, without incurring substantial transaction costs or “fire sales” of illiquid holdings.
- Incur costs that are reasonable and consistent with industry standards.
- Achieve funding goals, including the maintenance of funded status and manageable, consistent contribution rates.

B. Investment performance objectives include:

- Returns in excess of policy benchmarks at the total fund and asset class levels over rolling three-year periods.
    - The System’s total fund performance is evaluated by applying the investment performance of the asset class benchmarks to the Investment Program’s strategic asset allocation target (‘Policy Index’). The Policy Index permits the Board to compare the Investment Program’s actual performance to its total fund benchmark, and to measure the contribution of active investment management and policy adherence.
- Achieve real (after inflation) returns at the total fund level that are at or above the actuarial real return (assumed return less per capita pay growth) over complete market cycles.
- For asset classes and actively managed portfolios, achieve net returns that exceed policy benchmarks, and rank in the top half of a competitive, after-fee universe.

5. Investment Program Governance

5. Investment Program Governance

A. ROLES AND RESPONSIBILITIES

I. Board

With the authority noted above, the organizational structure of SCERS focuses the attention of the Board on governance and policy and not on the management of the System. The Board's primary responsibility is to set and direct investment policies set forth in this document, set and direct the strategic direction of the System, and guide its progress in achieving its goals and objectives. The Board has fiduciary responsibility for the System and the Investment Program.

While the Board may delegate certain responsibilities under the Investment Program for purposes of implementation, administrative efficiency and expertise, the following areas are the primary responsibilities of the Board, which may not be delegated:

- ◊ The governance model of the Investment Program
- ◊ Establishing and maintaining investment policy, including:
    - Investment philosophy
    - This Investment Policy Statement (IPS)
    - Investment objectives
    - Strategic asset allocation
    - Allocation-level performance benchmarks
    - Risk philosophy
- ◊ Engaging Board consultants and service providers
- ◊ Monitoring the Investment Program

II. Investment Staff

The CEO is responsible for the overall management and administration of the System under the Board's direction. The CIO and other Investment Staff, along with the CEO, are responsible for the implementation and maintenance of the Investment Program. The Investment Staff shall exercise the same fiduciary responsibility under applicable law as the Board. Staff shall act reasonably as custodians of the public trust, and shall recognize that the Investment Program is subject to public review and evaluation. The overall management of the System's Investment Program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

Key responsibilities of the Investment Staff include:

- Implementation and oversight of the System’s Investment Program, including policies, structures, investment mandates, systems, service providers and cash flows.
- Assisting the Board in the formulation and evaluation of investment policies and strategy, the development of the strategic asset allocation and asset class structures, and the risk management framework.
- Development and recommendations regarding investment mandates, service providers and investment management tools and systems.

III. General Consultant

General Consultant responsibilities include, but are not limited to, providing the Board guidance on strategic asset allocation and interim market tactics, selection and monitoring of plan and manager performance, assisting with documentation and guiding Board education.

The General Consultant is and shall agree to be a fiduciary to the System under California law. The General Consultant works with Investment Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The General Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the General Consultant are contained in an Agreement for Investment Consulting Services, and generally include providing advice with respect to:

- Investment strategy development and implementation
- Investment policy development
- Asset allocation among asset classes and subclasses
- Investment manager selection, evaluation and termination
- Investment performance monitoring
- Investment risk monitoring
- Capital markets projections
- Coordination with the System’s actuary in conducting periodic asset/liability studies and other required reporting
- Board education
- Collaboration with Investment Staff on maintaining an investment manager Watch List

IV. Alternative Assets Consultants

The Alternative Assets Consultants are and shall agree to be a fiduciary to the System under California law. The Alternative Assets Consultants works with Investment Staff in the development of recommendations while recognizing their fiduciary duties are to provide prudent investment advice to the Board. The Alternative Assets Consultants provide advice without discretionary authority to execute on their advice. The specific duties of the Alternative Assets Consultants are contained in an Agreement for Investment Consulting Services.

Responsibilities of the Alternative Assets Consultants include, but are not limited to, developing and maintaining strategic plans for the System's Absolute Return, Private Equity, Private Credit, Real Assets and Real Estate Investments. This includes manager selection, monitoring and due diligence, maintaining liquidity and pacing projections, and Board education.

V. Investment Managers

The System's asset are to be managed by external investment organizations that serve as fiduciaries to the plan under California law and comply with all legal requirements and System guidelines.

Subject to this IPS and their specific contractual obligations to the System, Investment Managers are responsible for making investment decisions on a discretionary basis (unless stated otherwise within their investment contract) regarding assets placed under their jurisdiction, and will be accountable for achieving their investment objectives. Decisions include the purchase, sale and holding of investments in amounts and proportions that are reflective of the stated investment mandate. Such investment managers will maintain proper and adequate insurance coverages including errors & omissions, surety bond and fiduciary liability. In addition, SCERS' investment managers agree to notify the Board Chairman and/or Investment Staff, in writing, if they are unable to continue acting in the capacity of a fiduciary or investment advisor. As stated above, investment managers are expected to act as prudent experts in the management of account(s) for SCERS, and agree to be fiduciaries to the System. In fulfilling their roles, investment managers will continually educate the Board about capital market developments that pertain to their area of investment expertise.

VI. Custodian Bank

The System's Custodian Bank is responsible for the safekeeping of assets, trade reconciliation and settlement, income collection, short term investing, securities lending, commission recapture and compliance monitoring.

The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of the System's assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the custodial agreement. The Custodian Bank, per the custodial bank agreement/contract, may be authorized to conduct a securities lending program within liquidity and risk constraints as authorized by the custodial agreement.

B. IMPLEMENTATION PROTOCOLS

I. Vendor Procurement

The implementation protocols related to the hiring and termination of investment managers are covered within the individual asset class IPSs. However, there are several characteristics within the implementation protocols for the traditional/liquid asset classes and the alternative asset classes that are covered in the Master IPS.

a. Traditional/Liquid Asset Classes (Public Equities; Public Fixed Income; Commodities; TIPS)

- SCERS' Board approves the long-term asset allocation structure and investment plan of an asset class.
- Implementation of the long-term asset allocation structure and investment plan, including the screening, due diligence and evaluation leading to the recommendation to the Board to engage or terminate an investment manager, is delegated to Staff and General Consultant.
- For investment manager hires, Staff and General Consultant complete due diligence, negotiate deal terms, provide separate due diligence reports to SCERS' Board, and determine which investment manager to recommend to SCERS' Board for consideration and approval.
- For investment manager terminations, recommendations are provided to the Board for consideration based on evaluation and due diligence by Staff and the General Consultant.
- Questions or concerns by a Board member regarding a proposed manager can be communicated to SCERS' CEO.

b. Alternative Asset Classes (Absolute Return; Private Equity; Private Credit; Real Assets; Real Estate

- SCERS' Board approves the long-term asset allocation structure and investment plan of an asset class.
- Implementation of the long-term asset allocation structure and investment plan, including the selection of investment managers and the adjustment or termination of investment mandates, is delegated to Staff and the Alternative Assets Consultants.
- For investment manager hires, Staff and the Alternative Assets Consultants complete due diligence, negotiate deal terms, provide separate due diligence reports to SCERS' Board, and determine whether an investment should be made.

- For investment manager terminations, where applicable, Staff and the Alternative Assets Consultants complete due diligence and evaluation of an existing investment manager, provide separate termination due diligence reports to SCERS' Board, and determine whether an investment should be terminated.
- Delegation is subject to the Board's review, discussion or objection to Staff/ Consultant recommendations, through communication to SCERS' CEO.

II. Vendor Termination

a. General Termination

From time to time it will be necessary for the System to terminate a contractual relationship with an investment manager. The Board has established the following criteria to assist in making termination decisions. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the System.

Any action to terminate an investment manager may be based on one or more but not limited to, the following primary criteria:

- Significant changes in firm ownership and/or structure
- Loss of one or more key personnel
- Significant loss of clients and or/assets under management
- Shifts in the firm's investment philosophy or process
- Significant and persistent lack of responsiveness to client requests
- Changes in SCERS' investment strategy eliminating the need for a particular style or strategy
- Persistent violations of the strategy's investment guidelines
- Investment performance that has fallen below policy benchmarks and SCERS' expectations
- Accusations of theft or fraud by a regulatory agency or other government body
- Any other issue or situation of which Investment Staff and/or Consultant become aware that is deemed material

The ability to terminate an investment manager is defined within the contractual agreement with each investment manager. Within the traditional/liquid asset classes, most of SCERS' separate account mandates are structured with immediate termination rights, while most commingled funds have specific redemption schedules, varying from daily to quarterly.

Within the alternative asset classes, the ability to terminate an investment manager is defined within the contractual agreement with the manager. Open-end funds, including Absolute Return and Real Estate investments, typically have monthly and quarterly termination rights, subject to lock-up periods and investor level gates. Closed-end funds within the private markets, including Private Equity, Private Credit, Real Assets and Real Estate, are generally illiquid structures with five to thirteen year holding periods. Any early liquidity within closed-end funds is typically achieved through the dissolving of the fund, by either the limited partners or the general partner prior to the end of a fund's term, or selling a limited partner stake in a fund in the secondary market.

b. Emergency Termination – Traditional/Liquid Asset Classes

In the case of an emergency within the traditional/liquid asset classes, SCERS may immediately terminate an investment manager for any reason without prior notice, subject to the termination language within the investment contract with the manager, and subject to liquidity provisions of the investment strategy. In most cases, any action to terminate a manager should be taken by the Board upon the recommendation for termination by Staff, with the concurrence of the Investment Consultant at either a regularly scheduled or specially called Board meeting. If the CEO and the CIO determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, that: (1) It is necessary to immediately terminate an investment manager in order to protect the assets under the control of the investment manager; (2) It is not feasible to convene a meeting of the Retirement Board for that purpose in a timely manner; and (3) Delay could result in detrimental impact to SCERS' assets or interests, the CEO or the CIO may terminate the agreement with the investment manager. The CEO or the CIO shall immediately report such termination to the Board, along with a report of the circumstances that prompted such action.

Whenever the CEO or the CIO exercise the authority to terminate an agreement with an investment manager as provided above, he or she may also take whatever actions he or she may determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, are reasonable and necessary to transition the assets under the control of the investment manager to alternate management, including, without limitation: (1) Temporarily assigning the assets to another existing contracted investment manager; (2) Identifying and engaging an alternate investment manager to manage the assets until a permanent replacement for the terminated manager can be engaged; or (3) Contracting for the services of a transition manager to facilitate an efficient and cost effective transition of the assets between the former and interim manager. The CEO, or in his or her absence, the CIO, may execute any and all agreements reasonably necessary to facilitate an orderly and efficient transition of the affected assets, so that they will be managed and protected until they are assigned to one or more alternate investment managers. The CEO, or in his or her absence the CIO, shall immediately report any and all steps taken to transition the assets and to protect the interests of SCERS to the Board.

III. Portfolio Rebalancing – Overlay Program and Physical

On a quarterly basis, the Investment Staff will report all rebalancing activity, either physical or via the Overlay Program.

a. Overlay Program

- The Overlay Program, which is managed by an external investment manager, is utilized to monitor and rebalance the asset allocation to policy targets.
- Under the supervision of the CIO and working with Consultants, quarterly rebalancing, primarily using derivatives, will occur in order to maintain exposures within defined bands and approaching long-term targets.
- The rebalancing frequency, rebalancing methodology and overlay proxies are defined within the Investment Management Agreement for the Overlay Program.

b. Physical Rebalancing

- When a physical rebalancing is appropriate, as determined by the CIO, it will be directed by the CIO, who will determine the most cost effective approach. Any physical rebalancing will be reported, along with associated costs, at the subsequent Board meeting.

6. Investment Strategy

An important component of the System's investment strategy is to view risk exposures through multiple lenses, including functional and common factor exposures, in order to manage and maintain allocations that are aligned with its investment philosophy and objectives. The multiple lens approach allows the System to better understand the sources of its returns and risks and to make informed adjustments to exposures when appropriate. Appendix One shows the Board approved desired functional asset category and asset class (Policy Index) exposures. Common factor exposure will be included in the performance reviews.

The Board will conduct periodic reviews (at least every five years) of its strategic asset allocation linked with projected liability behavior.

7. Asset Allocation

A. Growth Asset Category

The Growth asset category includes assets that are exposed to equity and credit risk factors. They tend to perform best when economic growth is average or above and/or rising, and inflation is moderate and/or falling. Asset classes within the Growth asset category include:

◊ Public Equities, both domestic and international

◊ Public Credit, i.e., high yield credit and bank loans

◊ Private Credit

◊ Private Equity

◊ Growth Absolute Return, including equity and credit oriented absolute return strategies with meaningful beta and correlation to equity and credit markets

B. Diversifying Asset Category

The Diversifying asset category includes assets that are expected to help preserve capital in periods of market distress, particularly in periods of low and falling growth. In such periods, diversifying assets may experience negative returns but are expected to perform better than growth assets, and are expected to enhance diversification by exhibiting low or negative correlation with both equity and credit markets. Diversifying assets are expected to have a positive return profile over market cycles. Asset classes within the Diversifying asset category include:

◊ Public Fixed Income, including US Treasuries, Global Bonds, and Core and Core-Plus strategies

◊ Diversifying Absolute Return, including absolute return strategies that have zero to negative correlation and low beta to equity and credit markets

C. Real Return Asset Category

The Real Return asset category includes assets that should perform well in periods of unexpectedly rising inflation while producing positive net real returns over complete market cycles. The category should also provide moderate levels of income and cash flow generation. Additionally, Real Return assets should enhance diversification by exhibiting low or negative correlation with both equities and nominal bonds. Asset classes within the Real Return asset category include:

◊ Real Estate, including both Core and Non-Core exposures

◊ Real Assets, including infrastructure, energy and natural resources

◊ Commodities

◊ TIPS and Inflation-Linked-Bonds

D. Opportunities

Allocation will include tactical opportunities that may arise across any of the above categories. The target allocation is 0%, but the actual allocation may be as high as 5%, with funding coming from the asset class that the opportunity most closely resembles. Opportunities investments will typically be of shorter duration (2-5 years) and are expected to enhance returns relative to their funding source.

8. Risk Management

Risk is inherent in a defined benefit pension plan's investment portfolio, putting a high premium on maintaining the appropriate risk level throughout market cycles. However, the System recognizes that there may be infrequent periods when risk levels become extreme and expected risk premia do not justify the exposure. While the System's primary risk management approach is broad diversification and disciplined rebalancing, the System will assign ranges around exposures to accommodate asset preservation during periods of market unrest, allowing for the ability to increase liquid defensive positions (i.e. Treasuries and TIPs) and reduce liquid growth exposures (i.e. Equities and Credit). The System views risk through multiple lenses in order to address the following circumstances:

- ◊ Large drawdowns
- ◊ Maintenance of real actuarial earnings expectation and purchasing power
- ◊ Ability to meet benefit payments and capital calls (i.e. liquidity)
- ◊ Avoid large volatility in contribution rates

In periodic performance reports, the System will monitor the following characteristics to keep track of various portfolio risks:

- ◊ Actual allocations vs. target allocations
- ◊ Risk Factors, including exposure to equity, credit, inflation, interest rates and currencies
- ◊ Exposures and liquidity/pacing provisions in private market asset classes
- ◊ Longer-term volatility (standard deviation) relative to policy

9. Portfolio Monitoring

9. Portfolio Monitoring

A. Reporting

I. Quarterly Reporting

The Board will receive quarterly performance and exposure reports from its General and Alternative Assets Consultants. The reports will generally include performance results and comparisons to benchmarks and peers, as well as asset class and risk exposure relative to policy allocations.

II. Annual Reporting

On an annual basis, Staff, with assistance from the Investment Consultants, will provide an 'Investment Year in Review' for the Board. This report and presentation with highlight investment activity for the total fund and individual asset categories and asset classes during the prior calendar year, and preview anticipated investment objectives and activity for the upcoming calendar year.

B. Compliance Monitoring

Monitoring of compliance with manager investment guidelines will be performed monthly by the CIO and Investment Staff relying on data provided by the custodian, consultants and investment managers. In addition, the CIO and Investment Staff will monitor performance and attribution characteristics, and dispersion of results relative to expectations. On an annual basis, the CIO and Investment Staff will request and review each manager's form ADV Part II and will inform the Board of significant changes and apparent conflicts of interest.

C. Watch List

The Watch List status will be determined and monitored by the Investment Staff and Consultants, focusing on relative performance and organizational instability. Decisions to add or remove an investment manager to/from the Watch List will be less rules-based and more a function of analyzing both quantitative and qualitative factors related to the investment manager. Investment managers on the Watch List will be subject to enhanced scrutiny and are subject to termination upon Board approval of Staff recommendation.

Investment manager additions and removals from the Watch List will be communicated to SCERS' Board monthly.

D. Manager Due Diligence

The Investment Staff and Investment Consultants will monitor individual investment managers' performance quarterly and annually. The Investment Staff and Consultants will meet with all investment managers periodically. Typically, these meetings will occur in the SCERS/Consultants' offices. However, manager on-site meetings may be scheduled for existing managers, Watch Listed managers, and as a part of new investment manager due diligence.

HISTORY

Restated on July 19, 2017 as “SCERS Master Investment Policy Statement”

Amended February 18, 2010

Amended December 18, 2008

Adopted January 17, 2008 as “SCERS Investment Policy & Objectives”

Appendix

APPENDIX I - SCERS' ASSET ALLOCATION POLICY

Asset Category	Asset Class	Minimum Allocation	Target Allocation	Maximum Allocation	Benchmark Proxy
Growth			**59.0%**		
	Domestic Equity	19.0%	21.0%	23.0%	Russell 3000 Index
	International Equity	18.0%	20.0%	22.0%	MSCI ACWI ex-US Index
	Private Equity	7.0%	9.0%	11.0%	Cambridge Associates PE/VC Index
	Public Credit	1.0%	2.0%	3.0%	50% BofA High Yield/50% CS Leveraged Loan
	Private Credit	2.0%	4.0%	6.0%	CS Leveraged Loan + 2%
	Growth Absolute Return	1.0%	3.0%	5.0%	TBD
Diversifying			**25.0%**		
	Core/Core Plus Fixed Income	8.0%	10.0%	12.0%	Barclays Aggregate Index
	US Treasury	3.0%	5.0%	7.0%	Barclays UST Index
	Global Fixed Income	2.0%	3.0%	4.0%	80% Citi WGBI/20% JPM GBI EM Global
	Diversifying Absolute Return	5.0%	7.0%	9.0%	TBD
Real Return			**16.0%**		
	Real Estate	5.0%	7.0%	9.0%	NFI-ODCE
	Real Assets	5.0%	7.0%	9.0%	TBD
	Commodities	0.0%	2.0%	3.0%	Bloomberg Commodities Index
	TIPS	0.0%	0.0%	3.0%	Barclays TIPS Index
Opportunities		0.0%	**0.0%**	5.0%	SCERS' Policy Index
			100.0%		

Sacramento County Employees' Retirement System
Investment Policy Statement

~~Proposed~~ Restatement
(July 19~~ne 21~~, 2017)

1. INTRODUCTION

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In administering the System, SCERS will value open communication, transparency and the consideration of different points of view. It will also follow the highest ethical standards in meeting its fiduciary duties of prudence and loyalty to the System's participants and beneficiaries, and will act solely in the interest of, and for the exclusive purpose of providing benefits and related services to participants and their beneficiaries.

2. MASTER IPS PURPOSE

The Master IPS is a principles based document that establishes broad policies that will guide SCERS' Investment Program. It is intended to provide guidance to the Board, Staff, Stakeholders and third party professionals.

The System's individual asset classes have their own dedicated investment policy statements which include detailed information specific to the ~~each primary~~ asset classes. Individual asset class IPSs contain asset class objectives, investment guidelines, ranges, permissible investments, benchmarks, and monitoring and implementation protocols specific to the asset classes. The individual asset class IPSs are included as supporting documents to ~~separate appendices within~~ the Master IPS.

3. INVESTMENT PHILOSOPHIES

The Investment Philosophies represent~~s~~ the System's principles on which the Investment Program is based. All investment decisions for the System are made within the context of these philosophies, which include:

- Strategic asset allocation has the greatest impact on long-term investment returns and volatility. Using quantitative asset/liability modeling coupled with qualitative evaluation, an appropriate strategic (long term) asset mix target is determined and serves as the guide for the investment allocation throughout market cycles. The qualitative evaluation ~~will~~ emphasizes the long-term sustainability of the system, mitigation of large drawdown risk and the ability to achieve long term funding goals.

- The strategic asset allocation target is a well-diversified portfolio across asset categories and asset classes. However, it is recognized that the portfolio's risk exposure is heavily influenced by equity risk which historically has been favorably correlated with the ability to achieve long term funding objectives.

- While it is essential to hold to the Investment Program's strategic asset allocation throughout market cycles, the ranges around the targeted asset class allocations allow for marginal adjustments as market opportunities arise. Under normal market conditions, asset category and asset class exposures will be rebalanced to target periodically to enforce a "buy low/sell high" approach across the portfolio.

- An allocation to low cost investment strategies, including passive strategies, will be used in the most efficient asset classes. Active management strategies, and the fees associated with active management, are acceptable when the expected excess return over the strategy benchmark compensates the System for the active risk taken, and the fee incentives align with the System's interests.

- Given the long-term nature of the System, investments that offer an illiquidity premium in return for a longer holding or lock-up period will be utilized to the extent that overall liquidity is not imperiled.

- The strategic asset allocation should generate sufficient levels of cash flow to support the System in meeting its benefit payment obligations.

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4. INVESTMENT OBJECTIVES

A. The primary and over-arching goals of the System are to:

- Provide for current and future benefit payments, i.e. sustain the plan through its useful life.
- Diversify plan assets as its main defense against large market drawdowns, while maintaining reasonable risk exposure to meet return requirements~~.~~
- Preserve a degree of liquidity ample to meet benefit payments and capital calls, without incurring substantial transaction costs or "fire sales" of illiquid holdings.
- Incur costs that are reasonable and consistent with industry standards.

- Achieve funding goals, including the maintenance of funded status and manageable, consistent contribution rates.
- ~~Maintain reasonable risk exposure required to meet return requirements, while limiting drawdown exposure.~~

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B. Investment performance objectives include:

- Returns in excess of policy benchmarks at the total fund and asset class levels over rolling three-year periods.

  - The System's total fund performance is evaluated by applying the investment performance of the asset class benchmarks to the Investment Program's strategic asset allocation target ('Policy Index'). The Policy Index permits the Board to compare the Investment Program's actual performance to its total fund benchmark, and to measure the contribution of active investment management and policy adherence.

- Achieve real (after inflation) returns at the total fund level that are at or above the actuarial real return (assumed return less per capita pay growth) over complete market cycles.
- For asset classes and actively managed portfolios, achieve net returns that exceed policy benchmarks, and rank in the top half of a competitive, after-fee universe.

5. INVESTMENT PROGRAM GOVERNANCE

A. ROLES AND RESPONSIBILITIES

1. Board

With the authority noted above, the organizational structure of SCERS focuses the attention of the Board on governance and policy and not on the management of the System. The Board's primary responsibility is to set and direct investment policies set forth in this document, set and direct the strategic direction of the System, and guide its progress in achieving its goals and objectives. The Board has fiduciary responsibility for the System and the Investment Program.

While the Board ~~The Board also understands it~~ may delegate certain responsibilities under the Investment Program for purposes of implementation, administrative efficiency and expertise the following areas are the primary responsibilities of the Board, which may not be delegated:~~. The areas the Board may not delegate include:~~

- The governance model of the Investment Program
- Establishing and maintaining investment policy, including:
  - Investment philosophy
  - This Investment Policy Statement (IPS)
  - Investment objectives
  - Strategic asset allocation
  - Allocation-level performance benchmarks

        - Risk philosophy
    - Engaging Board consultants and service providers
    - Monitoring the Investment Program

2. Investment Staff

   The CEO is responsible for the overall management and administration of the System under the Board's direction. The CIO and other Investment Staff, along with the CEO, are responsible for the implementation and maintenance of the Investment Program. The Investment Staff shall exercise the same fiduciary responsibility under applicable law as the Board. Staff shall act reasonably as custodians of the public trust, and shall recognize that the Investment Program is subject to public review and evaluation. The overall management of the System's Investment Program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

   Key responsibilities of the Investment Staff include:

    - Implementation and oversight of the System's Investment Program, including policies, structures, investment mandates, systems, service providers and cash flows.
    - Assisting the Board in the formulation and evaluation of investment policies and strategy, the development of the strategic asset allocation and asset class structures, and the risk management framework.
    - Development and recommendations regarding investment mandates, service providers and investment management tools and systems.

3. General Consultant

   General Consultant responsibilities include, but are not limited to, providing the Board guidance on strategic asset allocation and interim market tactics, selection and monitoring of plan and manager performance, assisting with documentation and guiding Board education.

   The General Consultant is and shall agree to be a fiduciary to the System under California law. The General Consultant works with Investment Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The General Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the General Consultant are contained in an Agreement for Investment Consulting Services, and generally include providing advice with respect to:

    - Investment strategy development and implementation
    - Investment policy development
    - Asset allocation among asset classes and subclasses
    - Investment manager selection, evaluation and termination

- Investment performance monitoring
- Investment risk monitoring
- Capital markets projections
- Coordination with the System's actuary in conducting periodic asset/liability studies and other required reporting
- Board education
- Collaboration with Investment Staff on maintaining an investment manager Watch List

4. Alternative Assets Consultants

The Alternative Assets Consultants are and shall agree to be a fiduciary to the System under California law. The Alternative Assets Consultants works with Investment Staff in the development of recommendations while recognizing their fiduciary duties are to provide prudent investment advice to the Board. The Alternative Assets Consultants provide advice without discretionary authority to execute on their advice. The specific duties of the Alternative Assets Consultants are contained in an Agreement for Investment Consulting Services.

Responsibilities of the Alternative Assets Consultants include, but are not limited to, developing and maintaining strategic plans for the System's Absolute Return, Private Equity, Private Credit, ~~Private~~ Real Assets and ~~Private~~ Real Estate Investments. This includes manager selection, monitoring and due diligence, maintaining liquidity and pacing projections, and Board education.

5. Investment Managers

The System's asset are to be managed by external investment organizations that serve as fiduciaries to the plan under California law and comply with all legal requirements and System guidelines.

Subject to this IPS and their specific contractual obligations to the System, Investment Managers are responsible for making investment decisions on a discretionary basis (unless stated otherwise within their investment contract) regarding assets placed under their jurisdiction, and will be accountable for achieving their investment objectives. Decisions include the purchase, sale and holding of investments in amounts and proportions that are reflective of the stated investment mandate. Such investment managers will maintain proper and adequate insurance coverages including errors & omissions, surety bond and fiduciary liability. In addition, SCERS' investment managers agree to notify the Board Chairman and/or Investment Staff, in writing, if they are unable to continue acting in the capacity of a fiduciary or investment advisor. As stated above, investment managers are expected to act as prudent experts in the management of account(s) for SCERS, and agree to be fiduciaries to the System. In fulfilling their roles, investment managers will continually educate the Board about capital market developments that pertain to their area of investment expertise.

6. Custodian Bank

The System's Custodian Bank is responsible for the safekeeping of assets, trade reconciliation and settlement, income collection, short term investing, securities lending, commission recapture and compliance monitoring.

The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of the System's assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the custodial agreement. The Custodian Bank, per the custodial bank agreement/contract, may be authorized to conduct a securities lending program within liquidity and risk constraints as authorized by the custodial agreement.

B. IMPLEMENTATION PROTOCOLS

1. Vendor Procurement

The implementation protocols related to the hiring and termination of investment managers are covered within the individual asset class IPSs. However, there are several characteristics within the implementation protocols for the traditional/liquid asset classes and the alternative asset classes that are covered in the Master IPS.

a. Traditional/Liquid Asset Classes (Public Equities; Public Fixed Income; Commodities; TIPS)

- SCERS' Board approves the long-term asset allocation structure and investment plan of an asset class.

- Implementation of the long-term asset allocation structure and investment plan, including the screening, due diligence and evaluation leading to the recommendation to the Board to engage or terminate an investment manager, is delegated to Staff and General Consultant.

- For investment manager hires, Staff and General Consultant complete due diligence, negotiate deal terms, provide separate due diligence reports to SCERS' Board, and determine which investment manager to recommend to SCERS' Board for consideration and approval.

- For investment manager terminations, recommendations are provided to the Board for consideration based on evaluation and due diligence by Staff and the General Consultant.

- Questions or concerns by a Board member regarding a proposed manager can be communicated to SCERS' CEO.

b. Alternative Asset Classes (Absolute Return; Private Equity; Private Credit; Real Assets; Real Estate

- SCERS' Board approves the long-term asset allocation structure and investment plan of an asset class.

- Implementation of the long-term asset allocation structure and investment plan, including the selection of investment managers and the adjustment or termination of investment mandates, is delegated to Staff and the Alternative Assets Consultants.

- For investment manager hires, Staff and the Alternative Assets Consultants complete due diligence, negotiate deal terms, provide separate due diligence reports to SCERS' Board, and determine whether an investment should be made.

- For investment manager terminations, where applicable, Staff and the Alternative Assets Consultants complete due diligence and evaluation of an existing investment manager, provide separate termination due diligence reports to SCERS' Board, and determine whether an investment should be terminated.

- Delegation is subject to the Board's review, discussion or objection to Staff/Consultant recommendations, through communication to SCERS' CEO.

2. Vendor Termination

   a. General Termination

   From time to time it will be necessary for the System to terminate a contractual relationship with an investment manager. The Board has established the following criteria to assist in making termination decisions. The overriding consideration with respect to all decisions is that they shall be made solely in the best interest of the System.

   Any action to terminate an investment manager may be based on one or more but not limited to, the following primary criteria:

   - Significant changes in firm ownership and/or structure
   - Loss of one or more key personnel
   - Significant loss of clients and or/assets under management
   - Shifts in the firm's investment philosophy or process
   - Significant and persistent lack of responsiveness to client requests
   - Changes in SCERS' investment strategy eliminating the need for a particular style or strategy
   - Persistent violations of the strategy's investment guidelines
   - Investment performance that has fallen below policy benchmarks and SCERS' expectations
   - Accusations of theft or fraud by a regulatory agency or other government body
   - Any other issue or situation of which Investment Staff and/or Consultant become aware that is deemed material

The ability to terminate an investment manager is defined within the contractual agreement with each investment manager. Within the traditional/liquid asset classes, most of SCERS' separate account mandates are structured with immediate termination rights, while most commingled funds have specific redemption schedules, varying from daily to quarterly.

Within the alternative asset classes, the ability to terminate an investment manager is defined within the contractual agreement with the manager. Open-end funds, including Absolute Return and Real Estate ~~I~~investments, typically have monthly and quarterly termination rights, subject to lock-up periods and investor level gates. Closed-end funds within the private markets, including Private Equity, Private Credit, Real Assets and Real Estate, are generally illiquid structures with five to thirteen year holding periods. Any early liquidity within closed-end funds is typically achieved through the dissolving of the fund, by either the limited partners or the general partner prior to the end of a fund's term, or selling a limited partner stake in a fund in the secondary market.

b. Emergency Termination – Traditional/Liquid Asset Classes

In the case of an emergency within the traditional/liquid asset classes, SCERS may immediately terminate an investment manager for any reason without prior notice, subject to the termination language within the investment contract with the manager, and subject to liquidity provisions of the investment strategy. In most cases, any action to terminate a manager should be taken by the Board upon the recommendation for termination by Staff, with the concurrence of the Investment Consultant at either a regularly scheduled or specially called Board meeting. If the CEO and the CIO determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, that: (1) It is necessary to immediately terminate an investment manager in order to protect the assets under the control of the investment manager; (2) It is not feasible to convene a meeting of the Retirement Board for that purpose in a timely manner; and (3) Delay could result in detrimental impact to SCERS' assets or interests, the CEO or the CIO may terminate the agreement with the investment manager. The CEO or the CIO shall immediately report such termination to the Board, along with a report of the circumstances that prompted such action.

Whenever the CEO or the CIO exercise the authority to terminate an agreement with an investment manager as provided above, he or she may also take whatever actions he or she may determine, in consultation with the Investment Consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, are reasonable and necessary to transition the assets under the control of the investment manager to alternate management, including, without limitation: (1) Temporarily assigning the assets to another existing contracted investment manager; (2) Identifying and engaging an alternate investment manager to manage the assets until a permanent replacement for the terminated manager can be engaged; or (3) Contracting for the services of a transition manager to facilitate an efficient and cost effective transition of the assets between the former and interim manager. The CEO, or in his or her absence, the CIO, may execute any and all agreements reasonably necessary to facilitate an orderly and efficient transition of the affected assets, so that they will be managed and protected until they are assigned to one or more alternate investment managers. The CEO, or in his or her absence the CIO, shall immediately report any and all steps taken to transition the assets and to protect the interests of SCERS to the Board.

3. Portfolio Rebalancing – Overlay Program and Physical

On a quarterly basis, the Investment Staff will report all rebalancing activity, either physical or via the Overlay Program.

a. Overlay Program

- The Overlay Program, which is managed by an external investment manager, is utilized to monitor and rebalance the asset allocation to policy targets.
- Under the supervision of the CIO and working with Consultants, quarterly rebalancing, primarily using derivatives, will occur in order to maintain exposures within defined bands and approaching long-term targets.
- The rebalancing frequency, rebalancing methodology and overlay proxies are defined within the Investment Management Agreement for the Overlay Program.

b. Physical Rebalancing

- When a physical rebalancing is appropriate, as determined by the CIO, it will be directed by the CIO, who will determine the most cost effective approach. Any physical rebalancing will be reported, along with associated costs, at the subsequent Board meeting.

6. INVESTMENT STRATEGY

An important component of the System's investment strategy is to view risk exposures through multiple lenses, including functional and common factor exposures, in order to manage and maintain allocations~~exposures~~ that are aligned with its investment philosophy and objectives. The multiple lens approach allows the System to better understand the sources of its returns and risks and to make informed adjustments to exposures when appropriate. Appendix One shows the Board approved desired functional asset category and asset class (Policy Index) exposures. Common factor exposure will be included in the performance reviews.

The Board will conduct periodic reviews (at least every five years) of its strategic asset allocation linked with projected liability behavior.

7. ASSET ALLOCATION

A. Growth Asset Category

The Growth asset category includes assets that are exposed to equity and credit risk factors. They tend to perform best when economic growth is average or above and/or rising, and inflation is moderate and/or falling. Asset classes within the Growth asset category include:

- Public Equities, both domestic and international
- Public Credit, i.e., high yield credit and bank loans
- Private Credit
- Private Equity
- Growth Absolute Return, including equity and credit oriented absolute return strategies with meaningful beta and correlation to equity and credit markets

B. Diversifying Asset Category

The Diversifying asset category includes assets that are expected to help preserve capital in periods of market distress, particularly in periods of low and falling growth. In such periods, diversifying assets may experience negative returns but are expected to perform~~do~~ better than growth assets, and are expected to enhance diversification by exhibiting low or negative correlation with both equity and credit markets. Diversifying assets are expected to have a positive return profile over market cycles. Asset classes within the Diversifying asset category include:

- Public Fixed Income, including US Treasuries, Global Bonds, and Core and Core-Plus strategies
- Diversifying Absolute Return, including absolute return strategies that have zero to negative correlation and low beta to equity and credit markets

C. Real Return Asset Category

The Real Return asset category includes assets that should perform well in periods of unexpectedly rising inflation while producing positive net real returns over complete market cycles. The category should also provide moderate levels of income and cash flow generation. Additionally, Real Return assets should enhance diversification by exhibiting low or negative correlation with both equities and nominal bonds. Asset classes within the Real Return asset category include:

- Real Estate, including both Core and Non-Core exposures
- Real Assets, including infrastructure, energy and natural resources
- Commodities
- TIPS and Inflation-Linked-Bonds

D. Opportunities

Allocation will include tactical opportunities that may arise across any of the above categories. The target allocation is 0%, but the actual allocation may be as high as 5%, with funding coming from the asset class that the opportunity most closely resembles. Opportunities investments will typically be of shorter duration (2-5 years) and are expected to enhance returns relative to their funding source.

8. RISK MANAGEMENT

Risk is inherent in a defined benefit pension plan's investment portfolio, putting a high premium on maintaining the appropriate risk level throughout market cycles. However, the System recognizes that there may be infrequent periods when risk levels become extreme and expected risk premia do not justify the exposure. While the System's primary risk management approach is broad diversification and disciplined rebalancing, the System will assign ~~asymmetrical~~ ranges around exposures to accommodate asset preservation during periods of market unrest, allowing for the ability to increase liquid defensive positions (i.e. Treasuries and TIPs) and reduce liquid growth exposures (i.e. Equities and Credit). ~~beyond a normal range.~~ The System views risk through multiple lenses in order to address the following circumstances:

- Large drawdowns
- Maintenance of real actuarial earnings expectation and purchasing power
- Ability to meet benefit payments and capital calls (i.e. liquidity)
- Avoid large volatility in contribution rates

In periodic performance reports, the System will monitor the following characteristics to keep track of various portfolio risks:

- Actual allocations vs. target allocations
- Risk Factors, including exposure to equity, credit, inflation, interest rates and currencies
- Exposures and liquidity/pacing provisions in private market asset classes
- Longer-term volatility (standard deviation) relative to policy

9. PORTFOLIO MONITORING

A. Reporting

1. Quarterly Reporting

   The Board will receive quarterly performance and exposure reports from its General and Alternative Assets Consultants. The reports will generally include performance results and comparisons to benchmarks and peers, as well as asset class and risk exposure relative to policy allocations.

2. Annual Reporting

   On an annual basis, Staff, with assistance from the Investment Consultants, will provide an 'Investment Year in Review' for the Board. This report and presentation with highlight investment activity for the total fund and individual asset categories and asset classes during the prior calendar year, and preview anticipated investment objectives and activity for the upcoming calendar year.

B. Compliance Monitoring

Monitoring of compliance with manager investment guidelines will be performed monthly by the CIO and Investment Staff relying on data provided by the custodian, consultants and investment managers. In addition, the CIO and Investment Staff will monitor performance and attribution characteristics, and dispersion of results relative to expectations. On an annual basis, the CIO and Investment Staff will request and review each manager's form ADV Part II and will inform the Board of significant changes and apparent conflicts of interest.

C. Watch List

The Watch List status will be determined and monitored by the Investment Staff and Consultants, focusing on relative performance and organizational instability. Decisions to add or remove an investment manager to/from the Watch List will be less rules-based and more a function of analyzing both quantitative and qualitative factors related to the investment manager. Investment managers on the Watch List will be subject to enhanced scrutiny and are subject to termination upon Board approval of Staff recommendation.

Investment manager additions and removals from the Watch List will be communicated to SCERS' Board monthly.

D. Manager Due Diligence

The Investment Staff and Investment Consultants will monitor individual investment managers' performance quarterly and annually. The Investment Staff and Consultants will meet with all investment managers periodically. Typically, these meetings will occur in the SCERS'/Consultants' offices. However, manager on-site meetings may be scheduled for existing managers, Watch Listed managers, and as a part of new investment manager due diligence.

HISTORY:

Restated __________________ as “SCERS Master Investment Policy Statement”

Amended February 18, 2010

Amended December 18, 2008

Adopted January 17, 2008 as “SCERS Investment Policy & Objectives”

Appendix One (Subject to Defining Acceptable Ranges and Sub-Asset Category Targets)

SCERS' Asset Allocation Policy

Appendix One	Min	Target	Max	Benchmark Proxy
GROWTH ASSETS		59%		
Domestic Equity		21		*Russell 3000*
International Equity		20		*MSCI ACWI ex US*
Public Credit		2		50% B of A ML HY/ 50% Credit Suisse Leveraged Loan
Private Credit		4		Credit Suisse Leveraged Loan +2%
Private Equity		9		Cambridge Global PE and VC Pooled Index
Growth Absolute Return		3		TBD
DIVERSIFYING		25%		
Core/Core Plus/Sovereign		13		Barclay's Aggregate/ WGBI
US Treasury		5		Barclay's US Treasury
Diversifying Absolute Return		7		TBD
REAL RETURN ASSETS		16%		
Real Estate		7		NPI
Real Assets		7		TBD
Commodities		2		Bloomberg Commodity Index
OPPORTUNITIES		0-5%		TBD

Appendix 1: SCERS' ASSET ALLOCATION POLICY

Asset Category	Asset Class	Minimum Allocation	Target Allocation	Maximum Allocation
Growth			**59.0%**	
	Domestic Equity	19.0%	21.0%	23.0%
	International Equity	18.0%	20.0%	22.0%
	Private Equity	7.0%	9.0%	11.0%
	Public Credit	1.0%	2.0%	3.0%
	Private Credit	2.0%	4.0%	6.0%
	Growth Absolute Return	1.0%	3.0%	5.0%
Diversifying			**25.0%**	
	Core/Core Plus Fixed Income	8.0%	10.0%	12.0%
	US Treasury	3.0%	5.0%	7.0%
	Global Fixed Income	2.0%	3.0%	4.0%
	Diversifying Absolute Return	5.0%	7.0%	9.0%
Real Return			**16.0%**	
	Real Estate	5.0%	7.0%	9.0%
	Real Assets	5.0%	7.0%	9.0%
	Commodities	0.0%	2.0%	3.0%
	TIPS	0.0%	0.0%	3.0%
Opportunities		0.0%	**0.0%**	5.0%
			100.0%	

SACRAMENTO COUNTY
EMPLOYEES'
RETIREMENT SYSTEM

SCERS

INVESTMENT POLICY & OBJECTIVES

January 17, 2008
As Amended June 18, 2008,
December 18, 2008,
and February 18, 2010

Foreword

The Sacramento County Employees' Retirement System ("SCERS") was created on July 1, 1941, by Sacramento County Ordinance #283 as adopted by the Board of Supervisors on April 30, 1941, pursuant to the County Employees' Retirement Law of 1937. SCERS provides retirement, disability, and death benefits for qualified employees of Sacramento County and eleven participating special districts.

A nine member Board of Retirement (Board) governs SCERS. The Board has sole and exclusive fiduciary responsibility over the assets of the retirement system. The Board has the sole and exclusive responsibility to administer SCERS in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The authority of the Board in the above matters is plenary or absolute. See California Constitution at Articles XVI Section 17.

While the Board has the above authority noted above, the organizational structure of SCERS focuses the attention of the Board on governance and policy and not on the management of the system. Thus, the primary responsibility of the Board is strategic in setting the direction of SCERS. This includes enunciation of the mission and setting of goals and objectives.

SCERS' Chief Executive Officer (CEO) has the responsibility for the overall management and administration of the system in accordance with the direction, policy and goals set by the Board. Reporting to the CEO as part of the executive staff is the Chief Investment Officer (CIO). The CIO has primary responsibility in cooperation with the CEO for SCERS' investment program.

An annual actuarial valuation commissioned by the Board determines contributions into the Sacramento County Employees' Retirement Fund (Fund). The growth of the Fund results from a combination of employer and employee contributions and the net return, less the administrative and investment costs, achieved from investing the assets.

The Purpose of this Investment Policy and Objectives is to:

1. Articulate the Board's views on SCERS' investment objectives and risk tolerance for the investment portfolio.

2. Establish performance standards to measure the success of achieving the objectives.

3. Formulate the Board's policies and guidelines on: a) asset allocation and diversification of investments; b) identification of permissible investments; c) the structure and framework for the investment portfolio; d) implementing the policies; e) prudently monitoring and evaluating the performance and risk of the investment portfolio; and f) investment manager termination.

SCERS Investment Goals

1. Provide for Present and Future Benefit Payments - The overall purpose of SCERS is to invest pension assets, solely in the interest of providing benefits to the participants and their beneficiaries, while attempting to minimize the employer contributions and defraying the administrative costs. The investment of contributions and other fund assets in accordance with the investment policy described herein will accomplish this and maintain adequate funding of SCERS' liabilities over time.

   The goal of the Board is to design an investment portfolio that will achieve and exceed the actuarial rate of return assumption of 7.875% over a market cycle. The Board will strive to achieve this level of return with a high level of certainty.

2. Make Prudent Investments - With care, skill, prudence and diligence the Board will strive to produce an investment return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances. Such circumstances may change over time.

3. Diversify the Assets - The Board will diversify the investments of the Fund to maximize the investment return with acceptable investment risk.

4. Create Reasonable Pension Investments Relative to Other Pension Funds - The pension investment program must operate in compliance with all applicable State and Federal laws and regulations concerning the investment of pension assets. SCERS judges its selection of investment vehicles and policies against other private and public pension funds, with special emphasis on comparisons with public funds.

5. Establish Policy and Objectives Review Process - Annually, SCERS will conduct a formal review of its Investment Policy and Objectives and will develop an updated financial projection at least every five years.

Risk vs. Return

In general, research has shown that investments that involve greater risks offer a higher expected return. The Board will seek to achieve the performance goals previously outlined with the lowest acceptable level of risk. To achieve the actuarial target earnings goal with a high level of certainty, the Board has adopted a strategic asset allocation plan with an expected annualized passive return of 7.96% over a 10-year period. This asset allocation is expected to have an annualized standard deviation of 11.56%. SCERS will utilize active investment management strategies to add the additional return required to achieve the target earnings rate. The Board strives to seek a balance between the certainties of obtaining a set return over time with the risks inherent in higher return investments.

The annualized passive return for the strategic asset allocation is different from the target earnings rate because the asset allocation capital market assumptions are for a shorter forecast time horizon and the inflation assumption used in the developing the actuarial rate of return is lower.

PERFORMANCE OBJECTIVES

SCERS' performance objectives provide the Board with benchmarks to measure the performance of the investment policy and the guidelines. The performance objectives are divided into three components: first level objectives for the Total Fund; second level objectives for each asset class; and, third level objectives for the individual portfolio components. The performance evaluator will incorporate all three levels in its quarterly review of the Fund's performance.

The first level: Total Fund (Detailed Below)

The Total Fund has both an absolute and several relative performance objectives.

1. Achieve the actuarial rate of interest. The Fund will strive to earn a net investment return equal to or in excess of the assumed annualized actuarial rate of interest of 7.875% over rolling five year periods.

2. Relative to the asset allocation targets, generate a return in excess of the passive benchmark portfolio. The Board will establish a passive benchmark index, which reflects SCERS' unique asset allocation policy. Exceeding this benchmark indicates that the investment management structure of the various portfolio components has added value over a passively managed fund with a similar asset mix.

3. Exceed the rate of inflation. 5% more than Consumer Price Index , All Items- U.S. City Average, All Urban Consumers (CPI-U) as reported by the Bureau of Labor Statistics.

4. Comparison relative to peer group of similar funds. Exceed the median return at a comparable or lower level of risk compared to a similar peer group of public employee pension funds. The investment consultant will provide a comparative analysis of the Fund's comparable risk versus return.

FIVE YEAR PERFORMANCE OBJECTIVES

Total Fund

1. Annualized Return to Exceed the Assumed Actuarial Rate of Interest:

   Return above 7.875%.

2. Return to Exceed the Return of the Passive Benchmark Portfolio:

30%	x	Russell 3000
5%	x	Annualized 91-day T-Bill Rate plus 5%
20%	x	Barclay's Capital Aggregate Bond Index
20%	x	MSCI EAFE Index
12%	x	NCREIF Property Index
3%	x	NAREIT Equity Index
5%	x	Private Equity Benchmark
5%	x	Dow Jones UBS Commodities Index

3. Return Relative to Inflation: 5% more than Consumer Price Index, All Items- U.S. City Average, All Urban Consumers (CPI-U) as reported by the Bureau of Labor Statistics.

4. Return Relative to Similar Public Employee Retirement Systems:

   - Rank in the top forty percent of the State Association of County Retirement Systems (SACRS) performance comparison.

   - Rank below the median portfolio risk in SACRS and other appropriate peer performance comparisons.

The second and third level: Asset Classes and Individual Investment Managers

To achieve SCERS' performance objectives the Board has developed second and third level performance objectives to review the details of the investment portfolio. These second and third level performance objectives cover each asset class and each individual manager. These performance objectives are relative to each asset class benchmark; each investment manager specified benchmark and appropriate style peer group. The objectives for each asset class are listed below. The objectives for each investment manager are listed on pages twenty (20) and twenty-one (21).

The asset allocation accounts for at least 90% of the investment return. Differences in the strategic asset allocation will at times make performance comparisons with other plans difficult. Experience has shown that investment managers do not always meet their objectives. Recognizing this, it is important to keep in mind that the attainment of the five-year performance objectives may be very difficult. Meeting the five-year performance objectives is SCERS' performance goal. Performance that is close to the objectives will be of significant financial benefit to SCERS' financial condition. Failure to reach the goal may not necessarily reflect a deficiency in SCERS' investment objectives.

FIVE YEAR ASSET CLASS INVESTMENT RETURN OBJECTIVES

(Net of Fees)
As a subset of the Total Fund Objective

EQUITIES:	
Domestic Equity Large Cap	Russell 1000 Index plus 100 basis points for active managers and 60 basis points overall, including the passive allocation.
Domestic Equity Small Cap	Russell 2000 Index plus 150 basis points
Equity Long/Short Hedge Fund	91 Day T-Bill plus 500 basis points
International Equity	MSCI EAFE Index plus 100 basis points
Emerging Markets	MSCI EMF Index plus 150 basis points
Private Equity	S&P 500 plus 200 basis points
FIXED INCOME:	
Fixed Income	Barclays Capital Aggregate Index plus 70 basis points
REAL ESTATE:	
Private Market Core	NCREIF Index plus 100 basis points
Private Market Value Added	NCREIF Index plus 200 basis points
Public Equity Securities	NAREIT Equity Index plus 100 basis points
OPPORTUNITIES:	
Opportunities Strategies	Dow Jones UBS Commodities Index plus 100 basis points
CASH:	
Cash	State Street STIF
Strategic Overlay	Passive Return of SCERS' Asset Allocation, excluding the real estate asset class.

The objectives established in the three levels set a high standard of performance for SCERS' investments. The attainment of these objectives is dependent upon the SCERS' matching its asset allocation, and upon SCERS' investment managers generating superior rates of return.

RISK CONSTRAINT STATEMENT

RISK MEASURED BY VOLATILITY

There are numerous risks inherent in every asset class. The quantitative measurement of most, but not all, of these risks is done by evaluating the volatility of the asset class returns over time. The key is measurement over enough time to pick up some of the long-term risks, which are not apparent on a short-term basis. Volatility is a statistical measure of the frequency and size of deviations from an average return. The typical measure of volatility is standard deviation. One standard deviation is the range that returns will fluctuate within two-thirds or 66% of the time.

RISK MEASURED BY FUNDAMENTAL FACTORS

There are risks inherent in various asset classes, especially those that do not trade regularly or are not regularly marked to market, that do not show up in the short-term pricing of assets. These fundamental risks such as credit risk, defaults, interest rate sensitivity, investment duration and economic cycles do show up over longer periods. Many of these risks are qualitative in nature. As such, they are measured by individual perception.

Long-term measurements of price volatility over periods of 20 to 30 years will encompass the greatest percentage of both fundamental, qualitative risks and short-term price volatility. Asset classes and individual investments must be measured over long time periods to attempt to encompass all the various risk factors.

The Board will measure risk by both volatility and fundamental factors.

TOTAL FUND RISK OBJECTIVES

Standard Deviation Risk

A standard deviation of investment returns over a rolling 5-year period no greater than the Fund's passive benchmark portfolio.

Liquidity Risk

No more than 25% of the Fund shall be invested in instruments which are not regularly publicly traded on a daily basis.

Maximum Investment

No more than 2.5% of the Fund may be invested in any one security, with the exception of United States Treasury or Agency Obligations, a commingled fund or mutual fund, or a total return swap for an index or other derivative used to replicate an asset class exposure.

ASSET ALLOCATION

The decision of how to distribute the Fund assets among broad asset categories of domestic and international equities, private equity, domestic and international fixed income, real estate, hedge funds and opportunities is based upon a number of factors including, but not limited to:

- Financial condition of the Fund
- Expected long-term capital market outlook
- Participant growth
- SCERS' risk tolerance
- Cash flow requirements
- Actuarial requirements

SCERS has assumed the following long-term capital market returns for the asset allocation model. These assumptions are based on historical long term returns, the forecast economic environment and recommendations from SCERS' External Investment Consultant, Independent Actuary, and Chief Investment Officer.

EXPECTED CAPITAL MARKET RETURNS

ASSUMPTIONS: 10 Year Horizon, 2.5% Inflation

Asset Class	Real Rate of Return	Total Return	Expected Risk
Domestic Equity	5.7%	8.2%	18.6%
Domestic Long/Short Hedge Fund	5.7%	8.2%	15.1%
International Equity	5.7%	8.2%	19.5%
Private Equity	7.0%	9.5%	28.4%
Domestic Fixed Income	2.8%	5.3%	5.5%
Real Estate	4.7%	7.2%	13.7%
Opportunities Portfolio	2.0%	4.5%	18.0%
Cash	1.2%	3.7%	1.3%

These factors establish the basis for SCERS' long-term strategic asset allocation targets and ranges. Importantly, the long-term strategy includes ranges for each asset category in order to take advantage of market opportunities. The aggregate of the investments in each asset class is intended to match the characteristics of the returns used in the asset allocation model. Deviations from the characteristics represent strategic shifts to add value over these returns.

ASSET DIVERSIFICATION

Based upon the SCERS' capital market assumptions and those factors outlined by the Policy Statement, the Board retains an external investment consultant to create an asset allocation model. Based upon the performance objectives and risk constraints, the current SCERS' Asset Allocation Policy is:

SCERS' ASSET ALLOCATION POLICY

ASSET CLASS	TARGET	RANGE	
		MINIMUM	MAXIMUM
DOMESTIC EQUITY	30.0%	27.0%	33.0%
CORE Index	10.0%	9.0%	11.0%
CORE Enhanced Index	3.0%	2.4%	3.6%
CORE Active Short Extension	3.0%	2.4%	3.6%
Value	7.0%	6.3%	7.7%
Large	4.0%	3.2%	4.8%
Small	3.0%	2.4%	.3.6%
Growth	7.0%	6.3%	7.7%
Large	4.0%	3.2%	4.8%
Small	3.0%	2.4%	3.6%
LONG/SHORT HEDGE FUND	5.0%	4.5%	5.5%
PRIVATE EQUITY	5.0%	4.5%	5.5%
INTERNATIONAL EQUITY	20.0%	18.0%	22.0%
MSCI EAFE Developed Markets	13.0%	11.7%	14.3%
Small Cap S&P/Citibank EMI Index	2.0%	1.6%	2.4%
Emerging Markets	5.0%	4.0%	6.0%
FIXED INOME	20.0%	18.0%	22.0%
Enhanced Index	6.7%	6.0%	7.4%
Active Core Plus	13.3%	12.0%	14.6%
REAL ESTATE	15.0%	13.5%	16.5%
Private Market Core	9.0%	7.2%	10.8%
Private Market Value Added	3.0%	1.5%	4.5%
Public Equity Real Estate Securities	3.0%	1.5%	4.5%
OPPORTUNITIES	5.0%	4.5%	5.5%
CASH	0.0%	0.0%	2.0%

The range for each asset class is set to provide strict adherence to the asset allocation policy within optimum variances. The range for each individual style is wider because of the normal volatility within any given asset class. The maximum and minimum ranges do not add up to the maximum and minimum for the asset class because of the wider ranges for each style, Maintaining the assets within the asset class ranges is critical to the Fund's ability to meet its performance objectives.

PERMISSIBLE INVESMENTS

Listed below are the investment vehicles specifically permitted under this Statement of Investment Policy and Objectives for separately managed accounts. They are categorized as equity, fixed income, real estate and derivatives to indicate how they are classified for purposes of the asset class structure guidelines in the following section. Unless given authorization in writing, managers are allowed to invest only in the investment vehicles listed below for the asset class for which they have been hired.

Equities

Investments include publicly-traded common stocks, preferred stocks, covered stock option calls, equity securities of foreign companies traded on registered U.S. stock exchanges, NASDAQ, or non-US stock exchanges and convertible securities (preferred or corporate bonds) and private equity funds, and private equity funds of funds.

Fixed Income

Investments include the full universe of fixed income instruments within different sectors of the U.S. and international bond markets including US government and agency debt, Treasury Inflation-Protected Securities, corporate debt instruments, mortgage and other asset-backed securities, municipal debt, high yield bonds, convertible debentures, certificates of deposit, non-dollar debt securities and fixed income mutual funds consisting primarily of the permissible investments. Also included in fixed income are privately placed debt instruments, and debt funds and funds of funds.

Real Estate

Investments include private market participation in commercial, industrial and residential real estate properties. These investments may comprise both open end commingled funds, closed end commingled funds and separate direct ownership accounts. Investments may also include publicly traded real estate equity securities including issues of Real Estate Investment Trusts (REIT) or Real Estate Operating Companies (REOC).

Derivatives

Investment managers may be permitted through individual investment guidelines to use derivative instruments to control or manage portfolio risk. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or derivatives. This definition includes collateralized mortgage obligations, futures, forwards, options, options on futures, swaps and swaptions. Managers may not utilize derivatives for speculative purposes. In no circumstances can derivatives lever any positions in SCERS portfolio, except as expressly authorized in writing. No derivatives positions can be established that create portfolio characteristics outside of current portfolio guidelines. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, and maintaining exposure to a desired asset class while effecting asset allocation changes.

Other Financial Instruments

Other financial instruments include investments in currency, currency derivatives, commodities and commodities futures as permitted in individual investment manager guidelines.

ASSET CLASS STRUCTURE AND STYLE

DOMESTIC EQUITIES

33.3% Passive Management / 66.7% Active Management

SCERS' domestic equities emphasize broad security and style diversification. The portfolio is equally weighted between the Value and Growth style. The aggregate portfolio will be designed to be neutral in capitalization and style to the characteristics utilized by the Asset Allocation Model. The goal of the active managers is to outperform their respective market segments and as a group exceed the passive benchmark portfolio.

U.S. Equity Benchmark Index --The Russell 3000 Index tracks the 3000 largest U.S. equities. This segment is a broad passive index of publicly traded stocks representing 98% of the investable U.S. equity market.

Growth Stocks --This segment is characterized by higher risk, lower yield, and higher P/E ratios. Growth stock portfolios display above-market performance in rising markets. Over the course of a market cycle, the active managers will exceed the return of their passive segment of the market. Smaller capitalized stocks will exhibit even higher rates of return. The growth stocks are divided into 57.1% large to mid cap and 42.9% small capitalization companies.

Value/Defensive --This segment attempts to outperform the market in down and flat markets, while obtaining market or lagging market performance in "up" markets. Over the course of a market cycle the active managers will exceed the return of their passive segment of the market. Value/defensive portfolios are usually characterized by Price to Book ratios and P/E ratios below the Russell 1000 Index for large cap stocks and below the Russell 2000 Index for small cap stocks and by dividend yields above the Russell 1000 Index for large cap stocks and above the Russell 2000 Index for small cap stocks. The value stocks are divided into 57.1% large to mid cap and 42.9% small capitalization companies.

EQUITY LONG/SHORT HEDGE FUNDS

100% Fund of Hedge Funds

This category of investment is intended to diversify SCERS domestic equity investment portfolio and improve overall portfolio risk/return characteristics. These investments will be correlated to the domestic equity markets at a ratio of .4 or less and are expected to provide downside protection in negative equity markets. The portfolios will employ strategies with a long bias in the range of 30-50% and with gross leverage of less than 2x at the portfolio level.

PRIVATE EQUITY

100% Active Management

This category of investment includes limited partnerships, funds and funds of funds that invest in domestic and international private venture capital, mezzanine capital, buyouts and distressed debt.

INTERNATIONAL EQUITY

100% Active Management

This category emphasizes diversification, seeking to attain net returns in excess of international index returns, which are not highly correlated to other assets in the portfolio, thereby reducing the SCERS' overall risk. The exposure to emerging markets creates added return and diversification from other assets increasing expected investment return and reducing risk.

International Equity Benchmark Indexes -- SCERS' utilizes the Morgan Stanley EAFE Indices for developed countries and the MSCI EMF Index for emerging markets. The emerging markets are 25% of the international equity allocation.

Active International Equity --These investments will be allocated between the regions, countries, developed markets and emerging markets consistent with the managers' assignment. The determination of the allocations is at the discretion of the managers but regional weightings should vary no more than 20% from the Benchmark weights. Managers can actively hedge the currency exposure at any time.

FIXED INCOME

33.3% Enhanced Index Management / 66.7% Active Core Plus Management

This category includes actively managed investments in U.S. treasury and agency securities, corporate bonds, mortgage-backed and asset-backed securities, non-dollar denominated sovereign debt and corporate debt and fixed income derivatives. The active portion is split between two core managers, to provide an asset class duration similar to the benchmark index. The use of a twenty percent or less exposure to Non-Dollar bonds and high yield debt increases the expected return and the diversification of the portfolio.

Risk Control - The aggregate fixed income portfolio will have a duration which is +/- 20% of the duration of the Fixed Income Index, and an average minimum credit quality of A-, as determined by a major rating agency, with a return in excess of the index used by the Asset Allocation Model.

Fixed Income Enhanced Index - The Barclays Capital Aggregate Bond Index, which represents a broad passive holding of all segments of rated U.S. fixed income is enhanced by varying the portfolio characteristics for duration, allocation to sectors and credit quality of the holdings in comparison to the benchmark.

Active Core Plus Fixed Income - The active Core core plus will have a duration that will range within 50% plus or minus the duration of the index. Also, the portfolio will have a minimum average credit quality of A/A. The active core plus portfolio can invest up to 20% un-hedged in Non-Dollar bonds and 20% in high yield or below investment grade debt.

REAL ESTATE

100% Active Management

This segment is intended to provide diversification from SCERS' holdings in equities and fixed income. Some of these investments are not marked to market each day and are not highly correlated to any of the other assets in the portfolio. In addition, some of these investments are very illiquid in nature. As such, the Board will establish a limit on the total allocation to the asset class. A portion of these investments are privately placed and their value is based upon an independent evaluation at regular intervals until actually sold.

Real Estate Private Market -- The majority of the real estate allocation will be held in private placements, which entail equity participation in commercial, residential and industrial real estate properties. These investments may comprise both open end commingled funds, closed end commingled funds and separate direct ownership accounts. The NCREIF Property Index represents real estate owned by tax-exempt institutions and held in a fiduciary environment and will be the index against which manager performance is measured.

Real Estate Public Equity Securities -- A portion of the portfolio will be invested in issues of Real Estate Investment Trusts (REIT) or Real Estate Operating Companies (REOC) managed by an experienced real estate securities investment manager. Only equity REIT securities and REOC securities which are broadly classified as institutional quality issues are eligible for inclusion in the portfolio. All securities held in the portfolio should be publicly traded and have sufficient marketability to permit prompt, orderly liquidation under normal circumstances. The NAREIT Equity Index will be the benchmark against which manager performance is measured.

OPPORTUNITIES

This segment includes a mix of investment securities that offer good risk/adjusted investment returns and are expected to have a low correlation with SCERS' public equity and debt investments. Investments which may be included in this asset class are commodities and commodity futures, Treasury Inflation Protected Securities (TIPS), timber or agriculture land, real return strategies, direct private equity, debt securities and other unique strategies. Investments will be assigned to this asset class based on the recommendation of the CIO and the Investment Consultant.

STRATEGIC OVERLAY

This investment strategy utilizes SCERS available cash to replicate the target asset allocation on a periodic basis for the purpose of assuring compliance with SCERS' Asset Allocation, excluding the real estate asset class. In addition, at least monthly, the Manager will overlay a replication of SCERS' Asset Allocation to rebalance the total portfolio, utilizing the Permissible Investment or other investments authorized in writing in the Manager's investment management guidelines.

The strategy is expected to reduce the drag of excess cash on total portfolio investment return and to reduce tracking error with SCERS Asset Allocation. The performance objective is to provide 10-25 basis points in annualized return to the SCERS Portfolio.

IMPLEMENTATION

IMPLEMENTATION OBJECTIVES

The CIO will establish procedures to ensure consistent operational compliance with Board policies and the efficient handling of investment duties.

PERIODIC REVIEW OF ASSET ALLOCATION POLICY

With the input from the Investment Consultant and the Actuary, SCERS will review the appropriateness of its asset allocation targets and ranges in light of changes in SCERS' liabilities and general market conditions. Such review, including an updated projection of assets and liabilities, shall be conducted at least every five years. The Chief Investment Officer will review the actual versus target Asset Allocation each quarter and provide a report to the Board indicating differences.

REBALANCING THE ASSET ALLOCATION

The Strategic Overlay Manager (Manager) under the supervision of the Chief Investment Officer will monitor the overall asset allocation to assure compliance with the target exposure to the asset classes and related target weights as defined by the SCERS' Asset Allocation, excluding the real estate asset class. At least monthly the Manager will overlay a replication of SCERS' Asset Allocation target exposure to the asset classes and related target weights utilizing the permissible investments approved in the Manager's investment management guidelines and objectives for the strategic overlay assignment.

The CIO will re-balance the asset allocation to the target ranges at least annually or at any time the allocations go outside the minimum and maximum ranges on page nine (9). Income and dividends are withdrawn from the Investment Managers' accounts each quarter except for trusts, commingled funds and public real estate portfolios. This cash flow and the net contribution cash flow will be used first to adjust the asset allocation. Any additional re-balancing required will be accomplished by shifting assets from one asset class to another. The CIO will consider transaction costs and the illiquidity of some asset classes when making the re-balancing decision. Given the volatility of the capital markets, constant minor adjustments will be avoided to reduce excessive turnover and transaction costs. The goal will be to re-balance to each asset allocation target when actual allocations are outside the policy range. Any re-allocation of assets between asset classes will be reported to the Board as part of the quarterly asset allocation report.

The Board has established certain style balances and risk controls within each asset class. The CIO will monitor the structure within each asset class to maintain the intended structure. The CIO, in consultation with the Investment Consultant, will shift assets between investment managers within an asset class to maintain the Board directed style balances and risk controls. After any transfer between investment managers, the Chief Investment Officer will notify the Board at its next available meeting.

The procedure for rebalancing is outlined below:

At least annually or when the asset allocation is outside the policy target range the CIO will, in consultation with the Strategic Overlay Manager:

1. Rebalance each Asset Class, which exceeds or is below the range.
2. Fully allocate the balance of uncommitted cash.
3. Utilize the Fund's cash flow as the first source of funds for re-balancing.
4. The final source will be shifts among asset classes.

At least semi-annually the Chief Investment Officer, in consultation with the Strategic Overlay Manager, will review the allocation of assets to individual investment managers and if determined to be necessary will:

1. Rebalance within each asset class to the Board approved style tilts and risk controls.

2. Rebalance any individual Investment Manager that exceeds their range.

3. Report any shift of assets between investment managers to the Board at its next meeting.

INVESTMENT MANAGER AGREEMENTS

SCERS will use SCERS' standard investment management agreements, unless business practice requires a specialized contractual agreement. The manager will be a Registered Investment Advisor under the 1940 Investment Act, unless exempt from registration as a bank, and must agree to be a fiduciary. The contract will detail the fee schedule, the investment guidelines and the portfolio restrictions.

INVESTMENT COST CONTROL

Annually the CIO shall present to the Board a review all the investment costs of SCERS.

INVESTMENT MANAGER REPORTING

To assist SCERS in maintaining adequate and accurate accounting for the assets of the fund, and to provide for the monitoring of investment managers' portfolios for compliance with investment guidelines and restrictions, the managers will be required to reconcile their investment holdings, transaction activity and income with SCERS' custodian bank on a monthly basis. Such reconciliation shall be provided to the custodian and SCERS in writing and be prepared in accordance with SCERS' standard reporting format. Any change in the report format will be provided to the manager in writing before being implemented

PERFORMANCE REVIEW

The CIO, with assistance from the external investment consultant, will prepare an investment performance report to the Board on a quarterly basis. Performance will be measured for the total portfolio and individual components including equities, hedge funds, fixed income, real estate and opportunities portfolios, as set forth on page six (6). In addition, the performance of each component will be broken down into individual portfolios, as set forth on pages twenty (20) and twenty-one (21).

Comparisons will be made against market indices defined in this document. A variance from the stated performance objective will be calculated each quarter. Additionally, each individual portfolio's actual investments will be monitored against its assigned investment style to determine whether the investment manager is adhering to it.

The quarterly investment performance report will compare the total fund, each asset class and individual portfolio return to appropriate market indices and a representative peer group of similar funds or similar style investment managers. The report will note significant changes in the attribution of investment manager performance.

Every six months, the CIO with the assistance of the investment consultant will provide the Board with a review of one of the four major asset categories of the total investment portfolio in detail. Therefore, during a two-year period the CIO and the investment consultant will conduct a detailed review of each of the four asset categories in which SCERS' invests.

INVESTMENT ACTIVITY COMPLIANCE AND INVESTMENT MANAGER MONITORING

Individual investment managers will be continually monitored on performance and adherence to the firm's philosophy, process, style, and the terms and conditions of the investment management agreement. In addition, the investment managers' organization and operations will be qualitatively monitored on a continual basis.

The CIO will prepare a monthly investment activity and compliance report. The report will note individual investment manager statistical compliance to their investment guidelines, objectives and portfolio restrictions. The CIO will review the investment manager purchases and sales for each month, and note in the report any deviations from the investment guidelines and restrictions, as outlined by the investment manager agreement, or significant changes in:

- portfolio composition
- portfolio turnover
- changes in market value
- sector weights
- general trading activity
- changes in cash position

Quarterly, the CIO will review the performance characteristics and the dispersion of the investment managers' returns within the investment style and the portfolio managers. Annually, the CIO will request and review the Investment Manager ADV Part II form and inform the Board of significant changes in the firm or apparent conflicts of interest.

INVESTMENT MANAGER WATCH LIST

The Board has delegated the ongoing monitoring of investment manager performance and the contractual relationship to the CIO and the Investment Consultant. From time to time, when in the opinion of the CIO's and Investment Consultant a significant or material adverse event occurs, an Investment Manager will be placed on a "Watch List".

Reasons for an investment manager to be placed on the "Watch List" include:

- Persistent underperformance of specified benchmarks or peer groups;
- a significant change in the firms ownership and/or structure;
- loss of one or more key personnel;
- significant loss of assets under management and loss of clients;
- shifts in the firm's investment philosophy or process;
- persistent lack of responsiveness to SCERS requests;
- regulatory investigations;
- recurring violations of the Investment Policy, investment guidelines or instructions;
- any other issue or situation of which the staff, investment consultant and/or Board become aware this deemed material.

If an investment manager is placed on the "Watch List" the CIO will notify the investment manager in writing that it has been placed on the "Watch List", an explanation of the adverse event resulting in the placement of the investment manager on the "Watch List" and informing the investment manager of what the investment manager needs to do to be removed from the "Watch List".

The placement of an Investment Manager on the "Watch List" will be reported to the Board at the next regular Board meeting along with an explanation of the adverse event resulting in the placement of the investment manager on the "Watch List", conditions needing to be met or improvement required to remove a investment manager from the "Watch List" and an indication of the length of time for the conditions to be met or improvement to occur for the "Watch List" status to be removed or for consideration that a investment manager be terminated.

At least quarterly, and whenever the Board deems it appropriate, the CIO and the Investment Consultant will prepare a report to the Board on the investment manager's on the "Watch List" and the progress being made on improving performance or correcting other non-performance related concerns. The report will include a recommendation by the CIO and the Investment Consultant on whether the investment manager should be removed from the "Watch List", continue on the "Watch List" or be terminated.

By being placed on the "Watch List", the investment manager will be under close review by the CIO, the investment consultant and the Board. The purpose of the "Watch List" is to formally notify the investment manager of SCERS' concerns. The CIO and the investment consultant will contact the investment manager to address the events resulting in the investment manager's being place on the "Watch List" and the CIO and the investment consultant may require the investment manager to meet with them or visit the investment manager's offices. The Board may request the investment manager appear in person before the Board before acting on a recommendation from the CIO and investment consultant for an investment manager to be terminated.

Performance

Investment manager performance is measured against their respective portfolio benchmark and relative to a peer group of similar style investment managers. Over any rolling three year and five year periods the investment manager is expected to generate an annualized net return in excess of the portfolio benchmark and rank in the top 40th percentile for their style peer group. Significant deviations from the performance objective, even over shorter time periods, will place the investment manager under closer observation, called the “Watch List”.

When an investment manager’s annualized portfolio investment performance for two consecutive quarters for trailing three year and five year periods is below the investment manager’s portfolio benchmark and the investment manager’s ranking is below the 40th percentile for a peer group of similar style investment managers the investment manager will be placed on the “Watch List”. The portfolio performance benchmarks are included at the end of the Investment Policy and Objectives in the table entitled Performance Objectives for Individual Portfolio Components and is included in the attached amendment.

An investment manager may also be placed on the “Watch List” for poor performance over shorter time periods. If an investment manager’s portfolio performance for the trailing one year period is more than twenty-five percent below the portfolio benchmark (.25 x the portfolio return) and the investment manager’s peer ranking is below the 75th percentile for two consecutive quarters the investment manager will be placed on the “Watch List”.

Investment manager investment performance is expected to improve within twelve to eighteen months from the time of being placed on the “Watch List”. The CIO and the Investment Consultant will make a recommendation on removing the investment manager from the “Watch List”, continuing the “Watch List” status or termination at least once each quarter from the date the investment manager is first placed on the “Watch List”.

Non-Performance Events

Significant gains or losses of key personnel, assets under management, or clients, non-responsive communication, changes in ownership structure, among other factors, may place the investment manager on the “Watch List”. These changes are subjective in nature and will require a review by the CIO and the Investment Consultant and a written report being made to the Board. If any change is found to significantly impact or impair SCERS’ objectives, the Investment manager may be immediately terminated by the Board on the recommendation of the CIO and the Investment Consultant. The termination of an investment manager shall be carried out in accordance with the process and procedure set out below.

A “Watch List” designation resulting from a non-performance event should be addressed and any conditions met within six to nine months.

INVESTMENT MANAGER TERMINATION

SCERS may immediately terminate a manager for any reason without prior notice. In most cases any action to terminate a manager should be taken by the Board upon the recommendation for termination of the CEO or the CIO, with the concurrence of the investment consultant.

If the CEO, with the concurrence of the Board President, determines that in order to protect the assets of the Retirement Fund immediate or emergency action by the Board is required the SCERS' Board President shall call a Special Board meeting. The Special Board meeting shall be called in compliance with legal requirements governing open meetings and notice requirements.

If the CEO and the CIO, or one such officer if the second is unavailable, determine, in consultation with the investment consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, that: (1) it is necessary to immediately terminate an investment manager in order to protect the assets under the control of the investment manager; (2) it is not feasible to convene a meeting of the Retirement Board for that purpose in a timely manner; and (3) delay could result in detrimental impact to SCERS' assets or interests, the CEO or the CIO may terminate the agreement with the investment manager. The CEO or the CIO shall immediately report such termination to the Board, along with a report of the circumstances that prompted such action.

Whenever the CEO or the CIO exercise the authority to terminate an agreement with an investment manager as provided above, he or she may also take whatever actions he or she may determine, in consultation with the investment consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-Presidents if the President is not available, are reasonable and necessary to transition the assets under the control of the investment manager to alternate management, including, without limitation: (1) temporarily assigning the assets to another existing contracted investment manager; (2) identifying and engaging an alternate investment manager to manage the assets until a permanent replacement for the terminated manager can be engaged; or (3) contracting for the services of a transition manager to facilitate an efficient and cost effective transition of the assets between the former and interim manager. The CEO, or in his or her absence, the CIO, may execute any and all agreements reasonably necessary to facilitate an orderly and efficient transition of the affected assets, so that they will be managed and protected until they are assigned to one or more alternate investment managers as determined by the Board. The CEO, or in his or her absence the CIO, shall immediately report any and all steps taken to transition the assets and to protect the interests of SCERS to the Board.

DELEGATION OF AUTHORITY TO MODIFY EXISTING INVESTMENTS

The Members of the Board have a fiduciary responsibility to manage the investment of the assets of the Retirement Funds with the care, skill, prudence and diligence under the circumstances prevailing that a prudent person acting in a like capacity would use. In most cases, any action to modify the terms and conditions of an existing investment should be taken by the Board itself upon recommendation of the CEO or CIO, with the concurrence of the investment consultant. However, changes in prevailing circumstances may require that a prudent person act more quickly than the Board could act to modify the terms and conditions of an existing investment of assets in order to protect the assets. In those circumstances the Board has determined that it may be prudent, reasonable and necessary to delegate authority to take action to modify an existing investment as provided below.

If the CEO, with the concurrence of the Board President, or a Vice-President if the President is not available, determines that to protect the assets of the Retirement Funds emergency action is required to modify the terms and conditions of an existing investment between regular Board meetings, the SCERS' Board President or Vice-President shall call a Special Board meeting, in compliance with legal requirements governing open meetings and notice requirements. However, if the CEO and CIO, or one such officer if the second is unavailable, determine in consultation with the investment consultant and the General Counsel, and with the concurrence of the Board President or one or more Vice-

Presidents if the President is unavailable, that it would not be prudent and feasible to call a Special Board meeting because immediate action is required, and that delay could result in detrimental impact to SCERS' assets or interests, the CEO and the CIO, or one such officer if the second is unavailable, may immediately take any action deemed to be prudent, reasonable and necessary to best protect SCERS' assets or interests, including but not limited to, modification of the terms and conditions of an existing investment in compliance with the following procedures:

1. As to any Modification of an Investment Involving No More Than Two Percent of the Market Value of the Retirement Fund
    a. Any action may only be taken with the concurrence of the President, or a Vice-President if the President is not available.
    b. The CEO or CIO shall immediately report the action to the Board, along with a report of the circumstances that prompted such action.
2. As to any Modification of an Investment Involving More than Two Percent of the Market Value of the Retirement Fund
    a. Any action may only be taken with the concurrence of a majority of the President and the two Vice-Presidents, or any other combination of Trustees that may be designated by the Board for that purpose, provided that any combination must consist of less than a majority of the Board.
    b. The CEO or CIO shall immediately report the action to the Board, along with a report of the circumstances that prompted the action and the required concurrence of the designated Trustees.

The CEO, or in his or her absence, the CIO, may execute any and all agreements and documents on behalf of SCERS as may be reasonably necessary to implement any modification of an existing investment as authorized above.

PERFORMANCE OBJECTIVES FOR INDIVIDUAL PORTFOLIO COMPONENTS

DOMESTIC EQUITY (80% large to mid and 20% small)

Large Cap Core Index - (33.3%)	Return equal to Russell 1000 Index or other comparable index, net of fees.
Enhanced Index - (10.0%)	Return equal to Russell 1000 Index, or other comparable index plus .50%, net of fees.
Large Cap Short Extension - (10.0%)	Return equal to Russell 1000 Index, or other comparable index plus 1%, net of fees.
Large Cap – Growth - (13.3%)	Return equal to Russell 1000 Growth Index or other comparable index plus 1%, net of fees.
Small Cap – Growth - (10.0%)	Return equal to Russell 2000 Growth Index or other comparable index plus 1.5%, net of fees.
Large Cap – Value - (13.3%)	Return equal to Russell 1000 Value Index or other comparable index plus 1%, net of fees.
Small Cap –Value - (10.0%)	Return equal to Russell 2000 Value Index or other comparable index plus 1.5%, net of fees.

INTERNATIONAL EQUITY (75% Developed and 25% Emerging Markets)

Developed Markets - (86.7% large 13.3% small)

Large - Value - (20.0%)	Return equal to MSCI EAFE Value Index plus 1%, net of fees.
Large - Core - (25.0%)	Return Equal to MSCI EAFE Index plus 1%, net of fees.
Large – Growth – (20.0%)	Return equal to MSCI EAFE Growth Index plus 1%, net of fees.
Small Cap – (10.0%)	Return equal to MSCI EAFE Small Cap Index or other comparable index plus 1.5%, net of fees.

Emerging Markets - (25.0%)

Emerging Markets Growth	Return equal to the MSCI EMF Index plus 1.5%, net of fees.

(Manager Objectives Continued on the next page)

PRIVATE EQUITY

100% of the asset class is allocated to private equity managers	Return is equal to S&P 500 plus 200 basis points, net of fees.

FIXED INCOME

Enhanced Index - (33.3%)	
Enhanced Lehman Aggregate	Return equal to Barclays Capital Aggregate Bond Index plus 0.25%, net of fees.
Active Core Plus - (66.7%)	Return equal to Barclays Capital Aggregate Bond Index plus 0.7%, net of fees.

REAL ESTATE

Private Market - (80% of asset class)	
Core Funds or Separate Accounts	Return equal to the NCREIF plus 1.0%, net of fees.
Value Added Funds	Return equal to the NCREIF plus 2.0%, net of fees.
Public Equity – (20% of asset class) Separate Accounts	Return equal to the NAREIT plus 1.0%, net of fees.

EQUITY LONG/SHORT HEDGE FUNDS

100% of the asset class is allocated to equity long/short fund of funds managers	Return is equal to the annualized 91-day T-Bill Rate plus 5.0%, net of fees.

OPPORTUNITIES

This segment includes a mix of investments that offer good risk/adjusted returns and have a low correlation with SCERS' public equity and debt investments, such as commodities	Return is equal to Dow Jones UBS Commodities Index plus 100 basis points, net of fees.

STRATEGIC CASH OVERLAY

Daily available cash is to be invested permissible investments as authorized by this Policy excluding real estate.	Passive Return of SCERS' Asset Allocation, excluding the real estate class.