I. LEGAL AUTHORITY

The City of Phoenix Employees Retirement System (“the System”) was enabled by the City of Phoenix Charter, Part I, Chapter XXIV, Article II.

The investment powers and fiduciary responsibilities of the COPERS Retirement Board (“Board”) are specified in Section 4.1 which states:

“The authority and responsibility for the administration, management and operation of the Retirement Plan and for construing and carrying into effect the provisions of this Article, except as otherwise provided in this Article, are vested in a Retirement Board.”

II. PURPOSE OF THE INVESTMENT POLICY

The purpose of this Investment and Asset Allocation Policy is to assist COPERS’ Board and staff in more effectively supervising and monitoring the System’s assets and investments. The Board shall review this policy at least annually.

In the various sections of this policy document, the Board defines the COPERS investment program by:

• Stating in a written document the Board’s attitudes, expectations and objectives in the investment of COPERS assets;

• Setting forth an investment “structure” for managing assets. This structure includes various asset classes and investment management styles that, in aggregate, are expected to produce a prudent level of diversification and investment return over time;

• Providing guidelines for each investment manager portfolio that control the level of risk assumed in the portfolio and ensures that assets are managed in accordance with stated objectives; and

• Setting criteria to monitor and evaluate the performance results achieved by the investment managers.

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

Achieve a rate of return on investments that exceeds the actuarial assumed rate of return, over long periods of time. Achievement of this return objective should result in achievement of the following objectives.

- Maintain or reduce the combined (employer plus employee) contribution rate of the System over time.
- Progress toward a 100%, or higher, funding of the System’s Pension Benefit Obligation over time.

III. INVESTMENT OBJECTIVE

Funding Objective

The overall objective of COPERS investment program is to ensure that members, retirees and beneficiaries are provided with the benefits they have been promised by their employer at a reasonable and predictable cost to the employer. The System’s investment objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. Because of the long-term nature of the System’s pension liabilities, the Board maintains a long-term perspective in formulating and implementing the System’s investment policies, and in evaluating its investment performance.

Assets will be invested for total return with appropriate consideration for portfolio volatility (risk) and liquidity. Emphasis should be on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of COPERS. Total return includes dividends, interest, and realized and unrealized capital appreciation. Based on general beliefs about the long-term investment returns available from a well-diversified portfolio, the Board adopted the following Total Fund Investment Objectives:

- Within the framework of prudent risk limitations, the minimum investment objective is to achieve an average long-term total rate of return which satisfies the actuarial assumed rate of return. The actuarial rate of return is set at 8.0%.
- The System shall also strive to achieve investment performance that exceeds the rate of inflation over time thereby providing a real rate of return.
- The System’s assets shall earn a sufficient total rate of return over time to meet all benefit and expense obligations.

Risk

The investment risk philosophy for the Fund is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

- Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk taking is justifiable for long-term investors.
• Risk can be controlled through diversification of asset classes and investment approaches, as well as diversification of individual securities.

• The primary determinant of long-term investment performance is the strategic or long-term allocation of assets among various asset classes.

• Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes are unlikely to be rewarded.

Given these principles, COPERS has established a long-term asset allocation policy (specified in Section V. Asset Allocation Strategy of the Policy) that balances the return required to meet the System’s objectives and the risk level that is appropriate under existing circumstances. In determining its risk posture, the Board has properly considered, in addition to its fiduciary obligations and statutory requirements, the System’s purpose and characteristics, current and projected financial condition, liquidity needs, sources of contribution, income, and general operating conditions. In addition to the guidelines and procedures set forth herein, all applicable statutes shall be rigorously adhered to. In particular, investments will conform to the Phoenix City Charter, Chapter 24, Article II, Section 34, among other applicable ordinances.

Liquidity Posture

Liquidity considerations are minimal in the short-term and intermediate-term resulting in an immaterial impact upon investment policy, objectives and guidelines.

Diversification

In order to achieve this real rate of return, the Fund will rely on an investment strategy utilizing an appropriate long-term, diversified asset allocation model. Diversification distributes a portfolio across many investments to avoid excessive exposure to any one source of risk. The Board will determine the proper allocation among asset classes and investment managers, based on advice and analysis provided by Staff and/or external investment Consultant(s) (“Consultant”).

Conflict of Interest Prohibited

Members of the Board of Trustees, investment staff, investment managers, and consultants involved in the investment of COPERS assets will refrain from personal business activity that could conflict with the proper execution and management of the COPERS investment program, or that could impair their ability to make impartial recommendations and decisions. These parties are required to reveal all relationships that could create or appear to create a conflict of interest in their unbiased involvement in the investment process.

IV. DUTIES AND RESPONSIBILITIES

Board of Trustees

The Board of Trustees has the responsibility of establishing and maintaining broad policies and objectives for all aspects of the System’s operation. The Board is responsible for prudent investment and expenditure of the System’s assets. Specifically with regard to investments, the Board takes action on recommendations that come from its Investment Committee, Investment Consultant and Staff. The Board may also originate its own agenda items.
**Investment Committee**

The Board has established an Investment Committee. The responsibilities of the Investment Committee are detailed in Board policy 3. The Board Chairperson appoints the Chairperson of the Investment Committee (“Chair”).

**Retirement Program Administrator**

The Administrator is responsible for planning, organizing, and administering the operations of the Fund under broad policy guidance and direction from the Board. In fulfilling investment responsibilities, the Administrator may rely heavily on the Internal Investment Staff and Consultant(s).

**Investment Manager – Investment Staff**

The Investment Staff oversees the management of the investments and reports to the Retirement Program Administrator. The Board and the Administrator expect the Investment Staff to take a leadership role in investment management, operating with a very high standard of care in discharging responsibilities in managing COPERS’ investments. The Board expects the Investment Staff to:

- Advise the Board, through the Administrator, when the Investment Staff believes action relative to investment Policies or implementation is required of the Board.
- Review and monitor portfolio guidelines and propose changes, through the Administrator, to guidelines.
- Establish and conduct an appropriate process for monitoring and reporting COPERS’ investments and implementing the Board’s decisions.
- Assure that this Policy is reflected in the investment manager agreements and/or guidelines, as appropriate.
- Implement and report on any interim target asset allocations for the subsequent quarter, which is to be used to calculate benchmark performance for the Fund during periods of transition resulting from a change in the Board-approved target asset allocations.
- Inform the Board, through the Administrator, of any and all matters Staff believes to be sufficiently material to warrant the Board’s attention.
- Operate at all times in the best and exclusive interest of COPERS and in compliance with all applicable laws and investment Policies.
External Investment Consultant(s)

The Consultant is hired by and reports directly to the Board of Trustees. The Consultant's duty is to work with the Board, Investment Committee and its Chair, Administrator and Investment Staff in the management of the investment process. This includes regular meetings with the Board to provide an independent perspective on the System’s goals, structure, performance and managers. The Board may elect to retain one or more Consultants that specialize in specific areas of asset consulting.

External Investment Managers

The External Investment Managers ("Managers") are selected by, and serve at the direction of, the Board. The Staff and Consultant will provide the Managers with explicit written directions detailing their particular assignments. They will select, buy, and sell specific securities or investments within the parameters specified by Staff and Consultant and in adherence to this Investment Policy or to other policies set forth by the Board. Managers will construct and manage investment portfolios that are consistent with the investment philosophy and disciplines for which the Board hired them.

Custodian

The Custodian is selected by, and serves at the direction of, the Board. The Custodian(s) will collect income and safe keep all cash and securities, will regularly summarize these holdings, and facilitate a monthly reconciliation of accounts for Staff and Investment Consultant review. The Custodian will provide data and performance reports to the Staff and Consultant at intervals specified by the System’s written policy or contract. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash flow prior to allocating it to the Managers, and to invest such cash in liquid, interest-bearing instruments.

Legal Advisor

The role of the legal advisor is to perform draft document review and provide legal advice on issues, as necessary, to protect the interests of the Fund. The legal advisor does not review or approve investment decisions. The legal advisor reviews business terms for proper form, legality and Charter compliance. However, legal advisor review does not extend to aspects of business terms that require investment or financial expertise.

Actuary

The Board retains an actuary for the purpose of forecasting asset and liability growth and the many complex factors included in estimating future pension costs. These factors include, but are not limited to, interest rates, inflation, investment earnings, mortality rates, and employee turnover. These actuarial assumptions are then used to forecast uncertain future events affecting COPERS. The actuary shall be held to the highest standards and shall provide reports, at least annually, on the actuarial valuation of COPERS, and shall provide recommendations to the Board including, among other things, the estimated level of contributions necessary to fund benefits. The actuary is appointed by and serves at the direction of the Board.
V. ASSET ALLOCATION STRATEGY

Asset Class Policy Targets and Ranges

The Board of Trustees recognizes that the most important determinant of long-term return and volatility is the asset allocation decision. The System’s asset allocation policy is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this Investment Policy Statement. It is designed to provide the highest probability of meeting or exceeding the System’s objectives at a controlled level of risk and liquidity that is acceptable to the Board. In establishing its risk tolerance, the Board considers its ability to withstand short and intermediate-term volatility in investment performance and fluctuations in the financial condition of the fund. It will be the Board’s policy to review the appropriateness of the asset allocation strategy at least annually.

The target asset allocation and acceptable ranges as determined by the Board to facilitate the achievement of long-term investment objectives within acceptable risk parameters are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity</td>
<td>23.0%</td>
<td>19.0%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Large Cap US Equity</td>
<td>16.5%</td>
<td>14.5%</td>
<td>18.5%</td>
</tr>
<tr>
<td>Growth</td>
<td>5.5%</td>
<td>4.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Core – Index</td>
<td>5.5%</td>
<td>4.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Value</td>
<td>5.5%</td>
<td>4.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Small/Mid Cap US Equity</td>
<td>6.5%</td>
<td>5.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Growth</td>
<td>2.3%</td>
<td>1.3%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Core</td>
<td>1.9%</td>
<td>0.9%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Value</td>
<td>2.3%</td>
<td>1.3%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

**US Equity Composite Benchmark: Russell 3000 Index**

<table>
<thead>
<tr>
<th>International Equity</th>
<th>22.0%</th>
<th>20.0%</th>
<th>24.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap</td>
<td>19.4%</td>
<td>16.4%</td>
<td>22.4%</td>
</tr>
<tr>
<td>(Permits emerging markets allocation of +/- 15% of MSCI ACWI ex US Index weighting)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value</td>
<td>7.7%</td>
<td>6.7%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Growth</td>
<td>7.7%</td>
<td>6.7%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Core – Index</td>
<td>4.0%</td>
<td>3.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Small/Mid Cap</td>
<td>2.6%</td>
<td>1.6%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**International Equity Composite Benchmark: MSCI ACW ex US Investible Market Index**

| Fixed Income                 | 20.0%  | 18.0%   | 22.0%   |
| (Including up to 20% International) | | | |
Domestic Fixed Income Composite Benchmark: Barclay's Capital Aggregate Index

Emerging Markets Debt 5.0% 4% 6%

Emerging Markets Debt Composite Benchmark: JP Morgan EMBI Global Diversified Index

Core Real Estate 7.0% --- ---
Non-Core Real Estate 8.0% --- ---

Real Estate Composite Benchmark: NCREIF ODCE Index

Real Return Strategy 5.0% 4.0% 6.0%

Real Return Composite Benchmark: Consumer Price Index +4%

Long/Short Equity 10.0% 9.0% 11.0%

Long/Short Equity Benchmark: Custom (the weighted average of the underlying benchmarks)

Asset Allocation Policy adopted 06/25/08:
Composite Benchmarks per Board Action on (08/19/09)

Rebalancing

COPERS’ staff will have the responsibility of assessing, on a quarterly basis, whether an asset class or investment manager requires rebalancing and undertaking that rebalancing if necessary. Any necessary rebalancing will take place no later than 45 days after each quarter’s end.

Rebalancing ranges are not recommended for the large-cap core index investment because ranges for the growth and value managers imply automated style neutrality. Rebalancing ranges for the real estate investments are not recommended because of their illiquidity. Real estate and fixed income will be considered as a single, combined category for the purposes of rebalancing. Their combined value will be rebalanced to the sum of their target weightings and the allocation mixture between them controlled by the pace of capital calls to new real estate investments. The Board’s Investment Consultant will issue a recommendation to the Board should the real estate investments or other illiquid investments necessitate rebalancing. Whole-portfolio reallocations are occasions to rebalance the portfolio, regardless of the quarterly schedule. Regular cash needs above short-term cash holdings should be funded from asset classes at upper limits of their ranges.
(adopted 11/14/07, revised 8/19/09)

Utilization of Transition Managers

The COPERS staff will determine how to best manage each potential transition, including whether to use a transition manager, the legacy manager(s) or the target manager(s) to effect contemplated portfolio restructuring. With each transition, if it is determined COPERS will use a transition manager, staff will select a provider from the Board’s pre-approved list of transition managers. COPERS’ staff will seek bids from two or more managers on the list. This will be
done on a rotational basis taking into consideration the asset class (es) to be transitioned and each manager’s area(s) of expertise and capability. COPERS’ staff, with the assistance of the Plan’s investment consultant, will review all bids received and will choose the transition provider best suited to perform the contemplated transition event. A formal concurrence recommendation will be prepared by the Plan’s investment consultant. The transition manager’s services will be engaged under current procedures requiring two signatures from the list of authorized signatures. Following the transition event, the COPERS Board will be informed of the results of the selection process, the estimated costs of the transition and the actual costs of the transition.

VI. INVESTMENT RETURN OBJECTIVES AND BENCHMARKS

Total Fund Performance Objectives

The Board adopted the following comparative objectives for the Total Fund:

- The Total Fund should rank in the fiftieth (50th) percentile or better compared to a custom All Pension Plans $1B - $5B universe, measured over a minimum period of five (5) years. It is recognized that the System is subject to certain Charter restrictions on investment that will cause performance deviation relative to peer institutions.

- The System’s overall annualized total return, calculated relative to an asset allocation target policy index, measured over a minimum of five (5) years, should exceed the return that would have been achieved if the Fund had been fully invested according to the approved target allocation (the “Target Benchmark”).

- The System’s overall annualized total return, calculated relative to the actual collective asset class mix of the Fund measured over a minimum of five (5) years, should exceed the returns that would have collectively been achieved if the Fund had been fully invested in a weighted average of the appropriate indices (the “Actual Allocation Benchmark”).

The Board approved the following policy indices for asset class composites:

- Domestic Equity Composite - Russell 3000 Index;
- International Equity Composite - MSCI ACW ex US IMI (Net);
- Domestic Fixed Income Composite - Barclays Capital Aggregate Index;
- Emerging Market Debt Composite – JP Morgan EMBI Global Diversified Index;
- Real Return Composite - Consumer Price Index +4%;
- Real Estate Composite - NCREIF ODCE Index;
- Long/Short Equity Composite - Long/Short Equity Custom Benchmark (a weighted average of the underlying manager benchmarks)

Approved Asset Classes and Objectives

1. Equity

A. The following minimum performance goals have been established for the System’s domestic equity segment:
• The domestic equity segment total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of domestic equity managers measured over a minimum period of five (5) years.

• The individual domestic equity manager’s total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of domestic equity managers possessing a similar style over a minimum period of five (5) years.

• The domestic equity segment total return should exceed the total return of the Russell 3000 Index or a more appropriate index over a minimum period of five (5) years.

• The individual domestic equity manager’s total return should exceed the total return of an appropriate domestic equity index for a specific manager mandate over a minimum period of five (5) years.

B. The following minimum performance goals have been established for the System's International equity segment:

• The international equity segment total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of international equity managers measured over a minimum period of five (5) years.

• The individual international equity managers’ total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of international equity managers possessing a similar style measured over a minimum period of five (5) years.

• The international equity segment total return should exceed the total return of the Morgan Stanley Capital International All Country World ex United States Investible Market Index (MSCI ACW ex US IMI) over a minimum of five (5) years.

• The individual international equity managers’ total return should exceed the return of an appropriate international equity index for a specific manager mandate over a minimum period of five (5) years.

2. Fixed Income

The following minimum performance goals have been established for the System’s fixed income segment:

• The domestic fixed-income segment total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of fixed income managers measured over a minimum period of five (5) years.

• The individual fixed income managers’ total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of fixed income managers possessing a similar style over a minimum period of five (5) years.
• The fixed income segment total returns should exceed the total return of the Custom Fixed Income Index (based on the approved target allocation and corresponding benchmark return for each fixed income sub-asset class) and/or Barclays Capital U.S. Aggregate Bond Index measured over a minimum period of five (5) years.

• The individual fixed income managers’ total return should exceed the total return of an appropriate fixed income index for a specific manager mandate over a minimum period of five (5) years.

3. Emerging Markets Debt

• The emerging markets debt segment total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of fixed income managers measured over a minimum period of five (5) years.

• The individual emerging markets debt managers’ total return should perform at the fiftieth (50th) percentile or better compared to a nationally recognized universe of emerging markets debt managers possessing a similar style over a minimum period of five (5) years.

• The emerging markets debt total returns should exceed the total return of JP Morgan EMBI Global Diversified Index measured over a minimum period of five (5) years.

• The individual emerging markets debt managers’ total return should exceed the total return of an appropriate emerging markets debt index for a specific manager mandate over a minimum period of five (5) years.

4. Real Return Strategy

The following minimum performance goals have been established for the System’s real return segment:

• The individual real return strategy manager’s total return should exceed CPI +4% or better over a minimum period of five (5) years.

• The total real return segment total returns should exceed the total return of the Custom Real Return Index (based on the approved target allocation and corresponding benchmark return for each real return sub-asset class) measured over a minimum period of five (5) years.

• The individual real return managers’ total return should exceed the total return of an appropriate index for a specific manager mandate over a minimum period of five (5) years.

5. Real Estate

Performance objective for the combined Real Estate portfolio is to exceed the NCREIF ODCE Index over a minimum period of five (5) years.
The individual real estate managers’ total return should exceed the total return of an appropriate real estate benchmark for a specific manager mandate over a minimum period of five (5) years.

6. Long/Short Equity Strategy

Performance objective for long/short equity strategies is to exceed a custom long/short equity benchmark consisting of a weighted average of the underlying manager benchmarks over a minimum period of five (5) years.

The individual long/short fund of funds managers’ total return should exceed the total return of an appropriate long/short benchmark for a specific manager mandate over a minimum period of five (5) years.

VII. RESPONSIBILITIES OF INVESTMENT MANAGERS

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

1. Managing the assets under management in accordance with the policy guidelines and objectives expressed herein, or expressed in a separate written agreement when deviation is deemed prudent and desirable.

2. Acknowledging in writing to the Board the investment manager's intention to comply with the COPERS Investment Policy and City Charter requirements and restrictions for investment as they currently exist or as modified in the future (these Charter requirements are noted in section XIII).

3. Exercising full investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with investment objectives.

4. Promptly informing the Board regarding all significant matters pertaining to the investment of the plan assets, for example:
   - Changes in investment strategy, portfolio structure or market value of managed assets;
   - The manager's progress in meeting the investment objectives set forth in this document;
   - Significant changes in the ownership, affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organizations.

5. Initiating written communication with the Board whenever the investment manager believes that this Investment Policy should be altered. No deviation from guidelines and objectives established in the Policy should take place until after such communication has occurred and the Board has approved such deviation in writing. Investment managers are expected to be familiar with the holdings guidelines expressed in the COPERS Investment Restrictions Abstract.
6. The Board formally delegates full authority to each investment manager for exercising all proxy and related actions of the Fund investment assets assigned. Each manager shall promptly vote all proxies and related actions in a manner consistent with COPERS Proxy Voting Policy #157. Each investment manager shall keep detailed records of all said voting of proxies and related actions and will comply with all regulatory obligations related thereto.

7. Each investment manager shall utilize the same due care, skill, prudence and diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity, as a fiduciary, and fully familiar with such matters would use in like activities for like plans with like aims, while maintaining appropriate diversification to avoid the risks of large losses, in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as pertaining to fiduciary duties and responsibilities.

8. Submitting to the Board (and its designated Consultant) exhibits, written material, etc. that will be used during periodic meetings with the Board at least ten business days in advance of these meetings. Please refer to Section XII for a description of the reporting requirements.

9. The Board shall be using a third party consultant selected, hired and directed by the Board to: (1) assist in appraising performance, (2) to provide performance comparison data with other retirement plans, several capital market indices, and to other Managers, (3) assist in evaluating Manager style discipline and peer comparisons, (4) assist in strategic planning and management of the plan, and (5) other factors the Board deems appropriate. Managers are required to support and assist the consultant with their fullest cooperation.

10. Short Selling and Related Restrictions:

There shall be no: short selling, securities lending, non-collateralized and/or non-delivered repurchase agreements, use of financial futures or options (except where expressly permitted elsewhere), non-marketable direct investments in equity or debt, private placements, leaseback’s, Trust Preferred Securities or any other specialized investment activity without the prior written consent of the Board.

11. Liquidity and Marketability Restrictions:

Liquidity and marketability frequently are perceived to be a function of the quality and the market capitalization of each security holding. From the System’s perspective, liquidity and marketability also may be a function of a Manager's aggregate holdings in a particular security. A Manager shall not buy or hold a security for the Fund portfolio if the aggregate holdings among all of that Manager's other accounts in that same security would restrict the Manager’s ability to expeditiously liquidate the position at any time. If, from a total fund perspective, the collective holdings among all Fund managers accounts in that same security would restrict all managers collective ability to expeditiously liquidate their respective positions in that same security, the Fund retains the sole right to limit any manager's holding of any security in the Fund at any time in order to prevent the potential for said System’s collective liquidation and market risk.
12. Usage of Cross Asset Segment Investment Guideline Restrictions:

When a Manager's holdings include Fund assets outside of their primary assigned asset segment assignment (e.g.: a primary domestic equity manager also holds some cash equivalents or fixed income securities) the guidelines stated herein for the non primary asset segment shall fully apply to the Manager, in addition to the primary asset assigned segment guidelines.

13. Diversification Restrictions:

Except for criteria noted elsewhere in this Policy and in specific written contracts with each Manager, the appropriate and reasonable diversification of securities by such factors as geography, region, sovereign risk, native currency, quality, coupon, country risk, maturity, industry, duration, and sector is within the full discretion and responsibility of the Managers.

14. Alternative Investments – Valuation and Controls:

The following policy shall pertain to all Alternative Investments. Alternative Investments shall be defined as any investment in private equity, non-listed and market priced absolute return strategies, non-listed and market priced vehicles investing in real estate, non-listed and market priced vehicles investing in commodities, non-listed and market priced offshore vehicles, and non-listed and market priced commingled funds.

The named Investment Manager for each such Alternative Investment shall provide, in writing, the policies and procedures used in periodic portfolio valuation. These policies and procedures along with portfolio composition are to be reviewed with the client at least annually. At a minimum, the manager will address the following:

- Nature of underlying investments, including factors such as complexity, liquidity, volatility, and frequency of trading
- Methodology and assumptions used in valuation
- Checks and balances in place to ensure a fair valuation process

Furthermore, the Investment Manager will also notify the client immediately regarding any changes made to the valuation methodology or the assumptions used in the valuation process. The Investment Manager is also responsible for providing audited financial statements at least annually, and non-audited statements on at least a quarterly basis.

15. Brokerage Activities:

Investment managers are obligated to achieve best execution for all Fund transactions as specified in the Board’s Brokerage and Directed Trades Policy # 189.

VIII. RESPONSIBILITIES OF THE BOARD OF TRUSTEES

1. Manager Structure

The Board will retain Managers that specialize in the use of particular asset classes. The Board believes that the established structure:
is consistent with the practices of other similar-sized retirement funds; and
offers an appropriate blend of investment styles that will produce a sufficient level of
diversification and investment return over time.

2. Cash Flow Allocation

The allocation of assets is consistent with the Board’s desire to diversify the System’s investment management program. The Board shall review on a periodic basis the allocation of assets among its Managers. To the extent that it is practically possible, it is expected that any cash flow will be allocated to or taken from the managers in the same proportions that each manager's assets represent to the Total Fund assets in the target asset allocation outlined previously.

3. Trustee Utilization Restrictions

All Fund assets, in any form, shall be solely and exclusively: (a) settled, (b) held in custody, and (c) safe kept only with custodians designated by the Board at their sole discretion. To the extent that the Board invests a portion of the System’s assets in commingled vehicles or institutional mutual funds, then the investment guidelines of the fund's prospectus will be adopted as the System’s guidelines.

4. Transaction Agent Assignment Restrictions

The Board directs investment managers to use their best efforts (no specific percentage) to place COPERS commission trades with the custodian’s network of brokers for purpose of commission recapture. Notwithstanding these instructions, brokerage transactions in the normal course of business should be only directed to these brokers if in so doing the manager also fulfills their obligation to achieve best execution of Fund transactions as specified in COPERS Policy #189.

5. Other objectives, guidelines and restrictions that may from time to time be requested by the Board.

The Board will develop additional objectives, guidelines and restrictions in the future on other areas deemed appropriate.

IX. RESPONSIBILITIES OF THE CUSTODIAN

Any idle cash not invested by the Managers shall be invested daily via an automatic sweep STIF managed by the Custodian or by others on behalf of each Manager. It is the System's objective to have no idle cash at any time in any Manager’s portfolios.

Any securities lending program is to be managed by the custodian in accordance with COPERS Policy #188.

X. MANAGER EVALUATION AND REVIEW

On a timely basis, but not less than four times a year, the Board will review actual investment results achieved by each Manager (with a perspective toward rolling three-year and five-year time horizons) to determine whether:
• the Managers performed in adherence to the investment philosophy and policy guidelines set forth herein,

• the Managers performed satisfactorily when compared with:
  - the objectives set forth in Asset Class Objectives earlier described, as a primary consideration;
  - their own previously stated investment style;
  - other investment managers, both in asset class and in style group;
  - appropriate market indices.

In addition to reviewing each Manager's results, the Board will re-evaluate, from time to time, progress made in achieving the total fund, equity, fixed-income, international and alternative investment segment objectives previously outlined. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of: (1) the manager structure; (2) the allocation of assets among the managers; and (3) the investment objectives for the System's assets.

The Board will periodically consult with managers to discuss relevant topics. The Board may appoint investment consultants to assist in the on-going evaluation process. The consultants selected by the Board are expected to be familiar with the investment practices of other similar retirement plans and will be responsible for suggesting appropriate changes in the System's investment program over time.

**XI. USE OF COMMINGLED AND MUTUAL FUND VEHICLES**

The Board of Trustees may choose to invest in mutual funds, commingled funds, partnerships, exchange-traded funds or other pooled vehicles if they are invested substantially in a manner consistent with guidelines stated in the policy. However, the Board recognizes that such investments will be ultimately governed by the vehicle’s established guidelines and restrictions, as outlined in the prospectus, subscription agreements, or other offering documents prepared by the investment manager.

**XII. REPORTING REQUIREMENTS**

**Consultant Reporting**

The System’s Consultant will provide quarterly reports to the Board which, at a minimum, will review the following information about each Manager and the Total Fund:

- Overview of the most recent quarter and year-to-date capital markets review and/or investment indicators;
- Total Fund asset allocation;
- Comparison of Total Fund return versus its benchmarks and a universe of applicable peers; and,
- Absolute and relative performance results by individual manager and Total Fund compared to appropriate benchmarks.
Investment Manager Reporting

Each Manager will provide the System’s investment staff and general consultant with a quarterly report of their activity no later than thirty (30) days after the end of a quarter. Each report will contain the following information:

- Beginning asset value at cost and market.
- Ending asset value at cost and market. New contributions should be separately identified. Asset listings should include appropriate information on each equity security position to include name, number of shares, dividend, yield, price of earnings ratio, cost, market, current gain or loss and industry or sector. Debt security information should include name, position size, cost, market, coupon, maturity, rating, yield, current gain or loss.
- Securities sold and purchased during the quarter.
- Quarterly, year-to-date, and since inception performance results.
- Written discussion of most recent quarterly results and near-term future investment strategy.
- The Manager is to provide written notice to the Staff and Investment Consultant within ten days from the date a key person is hired or terminated.

XII. PRUDEENCE, ETHICS, AND CONFLICTS OF INTEREST

The standard of prudence to be applied by the Board and external service providers shall be the “prudent person” rule. All participants in the investment process shall invest and manage the funds of the System as a prudent person would, in light of the purposes, terms, distribution requirements, and other circumstances of the System.

In making and implementing investment decisions, participants in the investment process have a duty to diversify the investments of the System unless, under the circumstances, it is prudent not to do so.

The Board, staff, investment consultant and investment managers involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create or appear to create a conflict of interest in their unbiased involvement in the investment process.

XIII. CHARTER RESTRICTIONS ON INVESTMENT

The System’s investment authority is found in Chapter XXIV, Article II, Section 34.1, Charter, City of Phoenix (“Charter”). Subsections (a) through (g) of § 34.1 discuss specific types of investments the System may make, including stocks, bonds, and real estate. In 1999, subsection (h) to § 34.1 was added to broaden substantially the types of investments the System can make. Subsection (h) (the “Catch All” investment clause) authorizes the System to make any investment not discussed in subsections (a) through (g) of § 34.1 provided the investment is prudent, as measured by a reasonable person standard, and authorized by a two-thirds majority vote of the Board.
Certain investments are expressly prohibited by the City Charter and cannot be authorized by a two-thirds majority vote of the Board. As noted, all parties to the investment process are expected to be familiar with the System’s Charter restrictions on prohibited investments.