LOS ANGELES FIRE & POLICE PENSION SYSTEM

III. BOARD INVESTMENT POLICIES

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Los Angeles Fire & Police Pension System

1.0 - INVESTMENT GUIDELINES

PURPOSE

1.1 This document provides a framework for the investment management of the assets of the Los Angeles Fire & Police Pension Plan ("LAFPP," and hereafter known as the "System"). Its purpose is to assist the Board in effectively supervising and monitoring the investments of the System. Specifically, it will address:

A. The general goals of the investment program;
B. The policies and procedures for the management of the investments;
C. Specific asset allocations, minimum diversification requirements, rebalancing procedures, and investment guidelines;
D. Performance objectives and criteria for investment performance evaluation; and
E. Responsible parties.

The System establishes this investment policy in accordance with Section 1106 of the Charter of the City of Los Angeles for the systematic administration of the Retirement Fund. Since its creation, the Board's activities have been directed toward fulfilling the primary purpose of the System, as described in Section 1106:

> "…to provide benefits to system participants and their beneficiaries and to assure prompt delivery of those benefits and related services; to minimize City contributions; and to defray the reasonable expenses of administering the system….The Duty to System Participants and their beneficiaries shall take precedence over any other duty."

The System is an independent department of the City government and is governed by a nine member Board and administrative general manager. In the formation of this investment policy and goal statement, a primary consideration of the Board has been its awareness of the stated purpose of the System. The Board's investment activities are designed and executed in a manner that will fulfill these goals.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure that prudence and care is taken in the execution of the investment program.

Some investment areas are complex enough to have their own sub-policies. These are alternative investments, emerging managers, hedge funds, manager retention, proxy voting and real estate. These sub-policies are contained at the end of this Investment Policy.

INVESTMENT OBJECTIVES

1.2 The System's general investment goals are broad in nature. The following goals, consistent with the above described purpose, City Charter citations, and State Constitution are adopted:

A. The overall goal of the System's investment assets is to provide plan participants with post-retirement benefits as set forth in the System documents. This will be accomplished through a carefully planned and executed investment program.

B. A secondary objective is to achieve an investment return that will allow the percentage of covered payroll the City must contribute to the System to be maintained or reduced, and will provide for an increased funding of the System's liabilities.

C. The System's assets will be managed in a manner that is cognizant of risk adjusted rates of return. While the System recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. The Board's Investment policy has been designed to produce a total portfolio, long-term real (above inflation) return of 5%. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification. As a result, investment strategies are considered primarily in light of their impacts on total plan assets subject to the provisions set forth in Section 1106 the City Charter with consideration of the Board's responsibility and authority as established by Article 16, Section 17 of the California State Constitution.

D. The System's investment program shall, at all times, comply with existing and future applicable city, state, and federal regulations.

E. All transactions undertaken will be for the sole benefit of the System's participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses associated with the System.

F. The System has a long-term investment horizon and uses an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the System's investment performance.

G. Investment actions are expected to comply with "prudent person" standards as described in City Charter Section 1106(c):

> "…with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims."[1]

H. The investment objective of the total Fund, over a full market cycle (usually 5 - 7 years), is to earn a return on investments matching or exceeding the required actuarial rate of return and investment performance above the median of a universe of public funds.

Active managers should provide value added net of fees. Active management returns

[1] ERISA 404(a)(1)(B)

should exceed the corresponding index net of fees by an amount commensurate with the risk incurred as well as the other standards set out in the Board's Manager Retention Policy.

Passive managers should produce index-like returns for index fees.

DIVERSIFICATION REQUIREMENTS

1.3 A maximum of 75% of the Fund's assets may be invested in equity investments.

A minimum of 20% of the Fund's assets shall be invested in fixed income assets.

A maximum of 20% of the Fund's assets may be invested in real property or interests in real property.

No more than 3.5% of the Fund may be invested in the common stock of a single corporation or bonds of an entity not guaranteed by the United States Government.

No more than 5% of the outstanding shares of any corporation may be owned.

Initial funding allocated to an investment manager shall not exceed 20% of similar funds under management by the investment manager.

No investment management firm shall manage more than 20% of the total Fund assets except for passively managed index funds.

No more than 5% of the targeted real estate allocation may be invested in any one real property.

No more than 5% of the targeted real estate allocation may be invested in any one real estate investment pool.

MANAGER ACCOUNT RESTRICTIONS

1.4 Stock and bond managers shall have account specifications customized for the individual portfolio describing what is allowed and not allowed. These individual account specifications are created when a new manager is hired and modified when needed and take the form of a letter of agreement.

BOARD MEMBER AND STAFF REFERRAL RESTRICTIONS FOR POTENTIAL NEW INVESTMENTS

1.5 Potential investments shall be referred to the specific Investment Consultant by Staff or the full Board solely in the interest of contributing to the deal flow seen by the consultant.

A. A Board member initiates a referral by providing Staff with information about the proposed investment and how the investment was brought to the Board member's attention.

B. Staff shall provide this same information for prospective investments referred by Staff.

C. Staff shall then place the referral information (who is referring it, the nature of the investment and how it came to their attention) on the next Board agenda as a consent item for referral by the full Board to the Investment Consultant.

D. The Investment Consultant shall be advised that the decision as to whether a prospective investment referred either by Staff or the full Board would be a suitable investment for the Fund is to be evaluated solely upon the merits of the investment and its fit within the portfolio. No written analysis of the Investment Consultant's evaluation shall be required unless specifically requested by the full Board at the time the referral is made. In each case the Investment Consultant's evaluation of the potential investment, whether the evaluation is a formal written analysis or a verbal report, will be forwarded by Staff to the Board as a "Communications to the Board" item at the next Board meeting following the receipt of the evaluation.

E. Staff will make additions or modifications to contracts to carry out the referral and disclosure policies.

ASSET ALLOCATION PLAN

1.6 An Asset Allocation Plan shall be adopted and implemented by the Board which provides adequate diversification and gives the expectation of the highest rate of return commensurate with an acceptable level of risk, or volatility.

Conformance with the asset allocation shall be reviewed quarterly. Funds shall be rebalanced among asset classes when they are outside their target ranges or when they exceed the allocation target. The Asset Allocation Plan shall be reviewed at least every five years. The current Asset Allocation Plan is attached as Appendix 1 to the Investment Guideline Section of this document.

The Plan shall include, or be based on:

A. An analysis of the actuarial liabilities of the Fund;

B. A review of all viable asset classes; and,

C. The expected rate of return, correlation, and standard deviation of all investment asset classes included.

REBALANCING

1.7 As markets move over time, the actual asset mix of the Fund's portfolio may diverge from the target allocations established by the Board through the asset allocation process. If fund assets are allowed to deviate too far from the target allocations there is a risk that the portfolio will fail to meet the management objectives set by the Board. On the other hand, the Board is aware that continual rebalancing of the portfolio to the asset allocation targets may result in significant transaction costs and that the Rebalancing Policy is not intended to be used for tactical asset allocation.

Cognizant of these risks, the Board directs to Staff to rebalance the Fund portfolio in accord with the following guidelines and procedures:

A. With respect to each major asset class and to the investment structure within each asset class for which the Board has set a target allocation, the Board, in consultation with its Staff and its investment consultant, will establish rebalancing range limitations. Generally, the Board will require tighter ranges for the asset class groups (e.g., total equity and total fixed income) than for the investment structure within each asset class.

B. Staff will monitor the portfolio's asset allocation relative to the target allocations. If the actual allocations fall within the defined ranges, no rebalancing will be required. If actual allocations to an asset class, or within an asset class based on a target investment structure within a given asset class, fall outside the predetermined range, Staff will implement a rebalancing back to the mid-point between the end of the range that was exceeded and the target allocation. In no event will rebalancing occur more frequently than every three months.

C. In rebalancing, Staff should prioritize implementation procedures as follows:

    1. Investing net contributions into asset classes that are below their range limitations;

    2. Drawing cash flowing out of the portfolio (for benefit payments and expenses) from asset classes that are above their range limitations (using interest payments, rental revenues and dividends); and

    3. Selling over weighted assets and/or buying underweighted assets.

D. Whenever rebalancing is required within an asset class that has multiple managers under a single mandate, any reallocation of assets should be done on an equal-weighted basis, or according to the management structure of the asset class. However, if one or more of the managers is on watch list notice pursuant to the Manager Retention Policy, the staff may use their discretion to adjust the rebalancing weights.

E. When circumstances arise in which it is impractical to rebalance, asset classes may be deliberately left outside of their ranges for a period of time. Such circumstances may include, but are not limited to, situations when it is known that there are potential asset shifts pending in the portfolio over the next 12 months, such as a hiring/termination of a manager/s, an asset allocation review of the entire portfolio, a structural review of a given asset class. Illiquid asset classes such as private equity and real estate may be underweight but unable to absorb the full amount of cash needed to bring the portfolio into the asset allocation range for longer periods of time. Conversely, a liquid asset class may remain overweight while holding the cash that the illiquid asset class cannot absorb immediately.

F. Staff will report all rebalancing activities to the Board on a quarterly basis at a minimum. In circumstances where it is impractical to rebalance the portfolio for any market or portfolio-specific reason, Staff shall assess the rebalancing options, notify the Board of the out of balance situation, and report its recommendations to the Board. Staff shall seek approval from the Board to implement rebalancing according to Staff's recommended rebalancing plan in situations that involve leaving the portfolio, or some portion of the portfolio out of balance for an extended period of time.

EQUITIES

1.8 The Performance objective for the total domestic equity portfolio is to exceed the total return of the Russell 3000 Index. This and other objectives below are to be measured over a full market cycle.

The benchmark for the large capitalization stock class is the S&P 500 index.

The benchmark for the small capitalization stock class is the Russell 2000.

Small capitalization U.S. stock managers, other than fund of fund managers, may not buy any stock with a market capitalization exceeding $3.0 billion.

The International Equity asset class benchmark is the return of the Morgan Stanley Capital International All Country World Index ex U.S. (MSCI ACWI ex U.S.).

The Developed international stock managers' benchmark is the return of the MSCI ACWI ex U.S., including Canada.

The International Emerging Equity market managers' benchmark is the return of the Morgan Stanley Capital International Emerging Markets Free Index.

ALTERNATIVE INVESTMENTS

1.9 Alternative investments may include but are not limited to private equity and hedge funds. The purpose of this asset class is to provide increased investment returns for the Fund.

See Section 2.0-Private Equity Investments and Section 6.0-Fund Of Hedge Fund Program Investments.

FIXED INCOME

1.10 The core fixed income managers will be measured against the Barclays U.S. Aggregate Index.

The benchmark for opportunistic fixed income managers is the Barclays U.S. Aggregate Index plus .75%.

Long duration bond managers will use the Barclays U.S. Government/Credit Long Index.

The benchmark for the High Yield fixed income managers will be the Credit Suisse Global High Yield index.

The overall objective of the fixed income portfolio is to exceed the investment return of the Barclays U.S. Universal Index.

The benchmark for the Treasury Inflation Protected Securities (TIPS) managers will be the Barclays US Government Inflation-Linked Bond Index.

CASH (SHORT TERM FIXED INCOME)

1.11 The primary concern in investing the cash portfolio is safety of principal. Liquidity comes second and yield comes last. Investments shall carry long term debt ratings of at least A and short term ratings no lower than A-1, P-1.

REAL ESTATE

1.12 The separate written real estate policy shall include: objectives of real property investments; maximum amounts or percentages that may be invested in individual properties or types of properties; requirements for diversification and criteria for selecting advisers and appraisers.

SECURITIES LENDING

1.13 Securities lending is the lending of equity and fixed income securities held in the Fund to qualified borrowers who provide collateral in exchange for temporary use of the securities. Incremental income is generated through fees or the investment of the collateral during the time of the loan.

Securities lending income is only a secondary consideration to the operation of a securities portfolio. If it interferes with the portfolio management or the risks versus the return for a specific portfolio are uncertain, the securities will not be loaned out. All loaned securities must be collateralized and marked to market daily. Non-U.S. securities shall be collateralized at 105 percent of current market value. Domestic securities must be collateralized at 102 percent of current market value.

PERFORMANCE MONITORING

1.14 Investment performance shall be reviewed and evaluated quarterly with the assistance of an outside performance measurement firm.

A time-weighted method of performance measurement will be used for stock and bond accounts. An internal rate of return calculation will be used for some alternative investments.

Comparisons will be made of:

A. The total Fund against other pension funds, and the actuarial rate of return.
B. The total equity, fixed income and real estate portfolios against the Russell 3000, Barclays U.S. Universal Index and NCREIF, respectively.
C. Individual investment managers against their stated objectives and, if applicable, against managers of a like style.

See Section 8.0-Manager Selection and Retention for more detailed procedures for evaluating individual investment managers.

TRADING

1.15 All trading is to be done on a best execution basis.

Domestic stock trades will be done at 9 cents per share, or less.

Investment managers shall use a variety of, and subject to best execution shall use Los Angeles based brokers when feasible.

The Board encourages the use of minority or woman owned brokers by the Board's managers for the Fund's actively managed domestic and international exchange traded stock transactions subject to best execution. However, the Board does not encourage step out type transactions.

Board policy is to employ commission recapture and not soft dollars.

PROXIES

1.16 Proxies shall be voted in accordance with guidelines adopted by the Board of Fire and Police Pension Commissioners. (See Section 7.0 - Proxy Guidelines.)

HISTORY

1.17 Adopted: Circa 1980

Amended:

02/11/1982	04/08/1993	04/20/2006	06/18/09
03/08/1984	05/20/1993	05/03/2007	08/20/09
04/27/1989	12/09/1993	05/17/2007	
05/11/1989	06/15/1995	08/02/2007	
04/19/1990	01/20/2000	02/21/2008	
08/01/1991	01/08/2004	03/20/2008	
11/21/1991	01/19/2006	05/01/2008	
12/17/1992	02/02/2006	09/18/2008	

REVIEW

1.18 This policy shall be reviewed by the Board annually in January.

APPENDIX 1 – ASSET ALLOCATION 2008 WITH SUB CLASSES

CURRENT POLICY	Actual Allocation (May 13, 2008)	Target Allocation	Upper Range	Lower Range	% Range
Dom. Large Cap Equity	29.15%	29.75%	33.02%	26.48%	11.00%
Small Cap. Equity	8.24%	5.25%	6.30%	4.20%	20.00%
Int'l Equity	20.99%	15.00%	16.50%	13.50%	10.00%
Int'l Emerg. Mkts	3.27%	3.00%	4.00%	2.00%	33.30%
Core Bonds	19.30%	19.50%	20.96%	18.04%	7.50%
High Yield Bonds	2.48%	2.50%	2.92%	2.09%	16.60%
Real Estate	7.87%	9.00%	10.13%	7.88%	12.50%
Private Equity	4.06%	10.00%	12.00%	8.00%	20.00%
Hedge Funds	2.99%	5.00%	5.38%	4.63%	7.50%
Cash	1.66%	1.00%	3.00%	1.00%	200.00%
TOTAL	100%	100%			

Current Board Allocations Within Major Asset Classes:

50% of Domestic Large Cap Stocks indexed*
Small Cap is 15% of Domestic Stocks
Equal allocations to Growth and Value in large and small cap stocks
Real Estate 15% allocation to REIT's
International Equities and International Emerging Markets 15% and 3% allocations of Total Assets*
Long Duration 16% of the fixed income portfolio
Hedge Fund of Funds equally funded

* Approved on May 1, 2008

2.0 - PRIVATE EQUITY INVESTMENTS

BACKGROUND

2.1 The Board has a ten-percent (10%) allocation to Private Equity. Private Equity Investments are understood to mean non-traditional, often private, usually illiquid investments, both domestic and international. They may include, but are not limited to the following:

- Venture Capital – early, middle, late stage
- Buyouts
- Distressed or restructuring debt
- Subordinated/mezzanine debt

OBJECTIVES

2.2 This asset class offers high returns and diversification to the System's overall investment program. Diversification results from the relatively low correlation between returns of this class and other System assets. Similar risk reduction through diversification, however, is achievable through investments in safer, more liquid securities, so that investments in Private Equity should be driven by good prospects for high returns.

For asset modeling purposes, Private Equity Investments as a class were projected to produce over a long period of time (ten years) four full percentage points per year more than public equities. Since risk is high for any individual investment within this class, it is anticipated that the projected return for each individual investment should be even higher, in order for the program overall to achieve the targeted return for this asset class.

Diversification within the Private Equity Investment class is a primary risk control strategy and also a means of exposing assets to a large universe of high potential return private businesses. Investments will include all stages of venture capital, buyouts, and such other special debt and equity vehicles as meet the return objectives. In addition, diversification across vintage years is important to attain proper diversification of the private equity portfolio. Consequently, the private equity program will attempt to make commitments to each subset of the private equity asset class, including all stages of venture capital, buyout and special situation, each year. Diversification within the class, however, shall never supersede the return objective as a basis for approving any particular investment.

Due to their diversification features, investment partnerships will be the primary investment structure.

USE OF PRIVATE EQUITY MANAGERS

2.3 Managers may be hired by the Board to assist in the management of the Private Equity Program. Depending upon the needs of the Board, Managers may be responsible for assessing deal flow, reviewing prospective investments, and performing complete due diligence on potential investments. In addition, Managers may negotiate terms with the Funds, prepare contracts and subscription documents, monitor capital call and distribution requests, sit on Fund Advisory Boards, and perform such other tasks as the Manager's expertise and the needs of the Board may warrant. Managers serve as fiduciaries to the Board, and may be hired in a discretionary or non-discretionary capacity.

Managers may receive information about prospective investments from Board members or staff, and each Manager shall designate a contact person within the firm to receive and coordinate all such information. The General Manager shall designate a staff person to coordinate such communications between the Managers and Board or staff members. Prospective investments referred by a Board or staff member shall not influence the Manager's evaluation of the prospective investment. Such referrals and information will be given solely in the interest of contributing to the deal flow seen by the Manager, and supplementing the information the Manager gathers.

PRIVATE EQUITY APPROVAL PROCESS

2.4 The Private Equity Manager will evaluate and perform the due diligence for funds to be considered for investment by the Board. The Private Equity Manager will submit a fund description and evaluation to Staff for consideration. To qualify for a discretionary investment LAFPP's allocation to the fund must be not be greater than $25 million and Staff must agree that it is a suitable investment for the Plan. (APPENDIX I) If the investment is more than $25 million or if Staff opposes the investment, the Private Equity Manager can, at its discretion, choose to have the Board consider the investment at a regularly scheduled meeting.

Discretionary Managers will provide the Board with a descriptive report of each investment made for the Board's account.

GUIDELINES

2.5 The allocation to Private Equity Investments is 10 percent (10%). There shall be a 1.5 "overallocation" factor assigned to take into consideration the average funding time and maturing of investments in this asset class versus the expected growth of the total fund.

The following limits and ranges shall apply to the program:

A. Maximum investment per partnership -- $50 million.

B. Allocation to Private Equity investment subsets – 20-40% venture capital, 20-40% buyout, and 20-40% special situations. Maximum allocation to any subset would not exceed 50%.

PROGRAM MONITORING EVALUATION

2.6 Managers shall report in writing at least quarterly on the portfolio as a whole and on each individual investment for the portfolio, return and portfolio structure shall be emphasized. For each investment, the carrying value, income, description of activity, and evaluation of current status compared to original intent and objectives would be appropriate. At least once a year, Managers shall make a complete performance and portfolio report to the Board in person. In addition, Managers may be asked to provide/present other reports when and as requested by the Board.

HISTORY

2.7 Adopted: May 3, 2001; Revised: 06/05/03, 08/21/03, 03/02/06, 02/01/07, 11/05/09

REVIEW

2.8 This policy shall be reviewed by the Board annually in April.

APPENDIX I – LAFPP PRIVATE EQUITY DISCRETION IN A BOX

	Role of Board	Role of Staff	Role of Private Equity Manager
Strategy/Policy	• Approve asset class funding level. • Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions.	• Develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.	• With Staff and the General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	• Interview and approve investments in new management groups of amounts greater than $25 million prior to investment. • Interview and approve investments in follow-on partnerships of amounts greater than $25 million prior to investment.	• In conjunction with the Private Equity Manager, invest up to $25 million for new partnerships, and up to $25 million for follow-on funds without Board approval. If Staff opposes, refer to Board for decision. • In conjunction with the Private Equity Manager, make recommendations to Board for approval for investments over $25 million in new partnerships, or over $25 million in follow-on funds. • Execute agreements.	• Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over $25 million for new managers, or over $25 million in follow-on funds. • With Staff concurrence, approve investment of up to $25 million for new partnerships, and up to $25 million in follow-on funds. • Provide investment analysis report for each new investment. • Communicate with Staff regarding investment opportunities being considered for extensive analysis and due diligence. • Negotiate legal documents.
Investment Monitoring	• Review semi-annual, and other periodic monitoring reports.	• Review quarterly, annual and other periodic monitoring reports prepared by the Private Equity Manager. • Periodically conduct meetings with Private Equity Manager. • Fund capital calls and distributions. • Review the Private Equity Manager's recommendations on amendments. • Execute amendments to agreements.	• Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.

3.0 - REAL ESTATE POLICY

INTRODUCTION

3.1 The City of Los Angeles Department of Fire and Police Pension System (the "System" or "LAFPP") has determined that, over the long term, inclusion of equity real estate investments will enhance the risk/return characteristics of the System's portfolio investment.

This document establishes the specific objectives, policies and procedures involved in the implementation and oversight of the System's real estate program. The objectives define the specific risk tolerance and return expectations for the program. The policies provide specifications for acceptable investment styles and management of the various risks associated with the asset class. The procedures provide guidelines for the implementation and oversight of said policies.

INVESTMENT OBJECTIVES

3.2 A. Asset Allocation

LAFPP has approved a long-term asset allocation target of nine percent (9%) for investment in equity real estate investments. The allowable variation range is plus or minus one and one tenth percent (1.1%) of the System's total assets.

B. Return Objectives

During the last twenty years, real estate has been an asset class that institutional investors typically include in their investment asset mix. The Board of the City of Los Angeles Fire and Police Pension System ("Board") has determined that the objective of the System's real estate portfolio will be to provide returns superior to passive management strategies. Active management, value creation strategies and the prudent use of third party debt are approved methods for generating the expected excess return. The Board has approved a return objective for the real estate portfolio of a net return equal to the NCREIF Property Index ("NPI") plus 100 basis points over rolling five (5) year periods.

Shorter term performance and risk assessment will utilize a risk adjusted benchmark using return expectations by style in a customized, weighted benchmark to reflect the actual composition of the portfolio and the expected return of same.

INVESTMENT POLICIES

3.3 A. Portfolio Composition

The System divides the range of available real estate investment strategies ('styles') into four primary categories: (1) Core, (2) Enhanced, (3) High Return and (4) Public Securities. The style groups are defined by their respective market risk/return characteristics:

Core Characteristics

- Operating and substantially leased properties;
- Property types include office, apartment, retail, industrial;
- Total return is primarily attributable to income.

Enhanced Characteristics

- Properties requiring lease-up, rehabilitation, repositioning, expansion or those acquired through forward purchase commitments;
- Property types include office, apartment, retail, industrial;
- Total return is attributable to a balance between income and appreciation.

High Return Characteristics

- Properties or real estate companies offering recapitalization, turnaround, development, market arbitrage opportunities;
- No property types are excluded, and properties may include business operations (e.g. hotels, congregate care) as well as office, apartment, retail, industrial;
- Total return is primarily attributable to appreciation and generally recognized upon sale of the asset.

Public Securities Characteristics

- Shares of publicly traded securities offered by companies operating real estate assets as a primary source of corporate revenue.

With respect to the style groups, the Board has established the following return expectations:

Style	Expected **Net** Returns
Core Private	Gross NPI -75 bps
Public Securities	Gross Dow Jones U.S. Select Real Estate Securities Index
Non-Core	
Enhanced	Gross NPI + 25 bps (with leverage)
High Return	Gross NPI + 225 bps (with leverage)

In order to achieve the targeted return of NPI + 100 bps after fees, the System will maintain a portfolio composition within the following ranges:

Core Portfolio	**Target 50%**	
Private	Minimum 35%	Maximum 45%
Public	Minimum 5%	Maximum 15%
Non-Core Portfolio	**Target 50%**	

Enhanced	Minimum 25%	Maximum 50%
High Return	Minimum 0%	Maximum 25%

B. Risk Management

The primary risks associated with equity real estate investments are investment manager risk, property market risk, asset and portfolio management risk, loss of principal and liquidity risks. The System will mitigate risk in a prudent manner. The following policies have been established to manage the risks involved in investing in real estate equity.

1) *Defined Roles for Participants*

The real estate program shall be planned, implemented, and monitored through the coordinated efforts of the Board, Staff, Real Estate Consultant ("Consultant") and Investment Managers ("Manager" or "Managers"). Set forth below is the delegation of the major responsibilities of each participant.

<u>Duties of the LAFPP Board</u>

- Establishes the role of the real estate investment program in light of the total portfolio objectives.
- Approves the allocation to real estate and approves any adjustments to the allocation which may from time to time be necessary.
- Approves the Strategic Plan (Objectives, Policies and Procedures) and the Investment Plan for the real estate program.
- Reviews the real estate portfolio on a semi-annual basis to evaluate the investment performance and to ensure compliance with policy guidelines and approved Investment Plans.
- Reviews and approves Requests for Information as developed by Staff and Consultant to be used in Individually Managed Account ("IMA") manager selection.
- Reviews recommendations for selection of Managers, Investment Partners or Ventures, and Commingled Fund Sponsors and approves firms for selection.
- Reviews recommendations for removal of Managers and takes appropriate action.
- Reviews Staff and Consultant recommendations on asset purchase and sales and takes appropriate action.
- Reviews Staff and Consultant summary of and recommendations with regard to Manager Investment Plans and Budget and Management Plans.

<u>Duties of the LAFPP Staff</u>

- Reports to the Board on matters of policy.
- Oversees Consultant's preparation of the Strategic Plan and Investment Plan.
- Participates with the Consultant in the Annual Real Estate Portfolio Review, including Budget and Management Plans and presents summary findings to the Board.

- Brings any non-conforming items or significant issues to the attention of the Board.
- Documents and monitors funding procedures.
- Completes any other activity as directed by the Board.

Individually Managed Account ("IMA") Duties:

- Conducts searches for professional services and investment managers and, with the assistance of the Consultant, recommends finalists to the Board for approval.
- Oversees preparation of annual Manager Investment Plans. Presents and recommends Manager Investment Plans to the Board for review.
- Reviews the Budget and Management Plans prepared by IMA Managers and presents summary findings to the Board.
- Reviews Preliminary Investment Packages and compliance analysis prepared by IMA Managers and submits the results to the Board.
- Reviews fees for compliance and insures that Incentive Fees are processed appropriately.
- Performs other duties required to execute the IMA Investment Procedures.
- Monitors the closing process, and with legal counsel, reviews and executes any required documentation for acquisitions, refinancings and other capital transactions between IMA Managers and the Retirement System.

Commingled Fund ("CF") Duties

- With the assistance of the Consultant, conducts screening, review, and selection for recommendation of CF offerings.
- Oversees the commitment process, and with legal counsel, reviews and executes any required documentation.

<u>Duties of the Consultant</u>

- Reports directly to the Board, and Staff on matters of policy.
- Brings any non-conforming items or significant issues to the attention of the Staff and/or Board.
- Monitors the performance of the real estate portfolio and compliance with approved policy.
- Prepares the Strategic Plan and Real Estate Investment Plan and, in conjunction with Staff, presents the Plans to the Board for review.
- Prepares a quarterly Performance Measurement Report (PMR) to evaluate investment performance and to ensure compliance with policy guidelines and approved Investment Plans. Presents reports semi-annually.
- Assists Staff in the Annual Real Estate Portfolio Review.
- Provides Staff and/or Board with topical research and education on investment subjects that are relevant to LAFPP.

Individually Managed Account ("IMA") Duties

- Assists Staff in conducting searches for investment managers and preparing recommendations for the Board.

- Oversees Manager preparation of annual Manager Investment Plans, and, in conjunction with Staff, presents Plan summaries to the Board.
- Reviews the Budget and Management Plans prepared by IMA Managers and, in conjunction with Staff, presents summary findings to the Board.
- Reviews proposed acquisitions for pricing comparability with independent appraisal and provides final recommendation for approval/disapproval of each acquisition.
- Performs other duties required to execute the IMA Investment Procedures.

Commingled Fund Duties

- Conducts, or assists Staff in conducting analysis of Commingled Fund offerings in accordance with the Commingled Fund selection process.
- Provides written analysis of Commingled Funds as requested by Staff.

<u>Duties of the Manager</u>

- Provides performance measurement data in form and substance as requested by the System.

Individually Managed Account Managers:

- Acquires, manages and disposes of assets on behalf of the System.
- Adheres to the most recent version of the Real Estate Information Standards established jointly by the National Council of Real Estate Investment Fiduciaries (“NCREIF”), the Pension Real Estate Association (“PREA”) and the National Association of Real Estate Investment Managers (“NAREIM”) (“Information Standards”).
- Prepares Manager Investment Plans to be submitted to the Staff and Consultant.
- Prepares Preliminary Investment Packages to be submitted to the Staff and Consultant.
- Adheres to the Board approved acquisition procedures detailed in Appendix 1.
- Prepares Budget and Management Plans to be submitted to the Staff and Consultant.
- Meets with Staff and Consultant for the Annual Real Estate Portfolio Review.
- Provides Consultant, when requested, Annual Review information.
- Assists the Staff in preparing funding procedures.

Commingled Fund Managers:

- Adheres to reporting standards established by the CFA Institute and complies with generally accepted accounting principals (“GAAP”).
- Executes and performs its duties under the terms of the investment vehicle documents.
- Provides timely requests for capital contributions.

- Provides quarterly financial statements and annual audited reports.
- Conducts no less frequently than annually meetings with Staff and Consultant to discuss important developments regarding portfolio, investment and management issues.

<u>Duties of Legal Counsel</u>

- Legal counsel for the System as a representative of the Plan, will review upon request, all real estate related documents and/or provide advice for special investment situations as needed.

2) *Investment Structures*

The System recognizes that, regardless of investment structure, real estate is an illiquid asset class. Structures that maximize investor control of the assets are preferred, particularly in Core investments. The System also recognizes that the Enhanced and High Return styles require the assumption of additional risks including diminished investor control. The risk associated with reduced investor control in higher return strategies will be mitigated by limiting exposure to any single investment strategy and/or manager.

The Core investment style is considered to be less risky (thereby providing lower returns) than Enhanced and High Return investments. The lower risk assigned to Core investments is due to three primary characteristics: (1) the level and predictability of the income generated, (2) the higher proportion of the total return attributable to income and (3) the limited use of debt usually associated with these styles.

The Enhanced and High Return investment styles seek to provide higher returns with higher risk than the Core component of the portfolio. Enhanced investments are those capable of exhibiting Core characteristics but need an additional level of active management in order to regain or realize their Core position. High Return investments seek to capitalize on market inefficiencies and opportunities (e.g. capital voids, market recovery, development, distressed sellers, financial engineering) and debt to provide excess returns. Because of the degree of reliance on active management necessary to capitalize on such market inefficiencies, investments will be accessed through structures that allow a high degree of manager discretion.

The System will utilize the following investment structures:

a. Individually Managed Accounts ("IMA")

For the Core component, the System may purchase assets on a wholly owned basis through Individually Managed Account structures. The System may consider joint venture or co-investment ownership, as an equal or greater partner, within IMA structures.

b. Commingled Funds

For the Core and Enhanced component, the System will also consider Open-End Commingled Funds (OECFs). OECFs are an infinite life pool of assets diversified by geography and property type. OECFs are complementary to smaller IMAs as they provide access to larger, core, “trophy” properties that a smaller IMA would not be able to purchase. There are also OECFs that target Enhanced properties and provide similar diversification benefits.

For the Enhanced and High Return components, the System will purchase assets through the ownership of units or shares of Closed-End Commingled Funds. Closed-End Commingled Funds differ from OECFs in that they are finite life vehicles. Any legally permissible vehicle will be allowed including, but not limited to, joint ventures, limited partnerships, real estate investment trusts (private) and limited liability corporations.

3) *Diversification*

The System will seek to diversify its equity real estate portfolio by manager; property type; property location; investment style; and, within the High Return segment, by investment strategy. Investment property types must be consistent with the style groups as follows:

- Core includes office, retail, apartments, industrial, hotel and limited non-traditional property types.
- Enhanced and High Return have no restrictions on property type.

It is expected that at various points in time, the portfolio may be more heavily exposed to a single property type or location by virtue of opportunities available in the market, which are projected to generate the superior returns targeted by the System. Exposure to any single property type (i.e. office, retail, apartment, industrial or other) or geographic region in excess of forty percent (40%) of the total real estate portfolio must be reviewed as an exception by the Board.

International investments will be limited to no more than thirty percent (30%) of the total targeted real estate portfolio and may include private and public investments in the Core and non-core style groups.

Individually Managed Accounts

The System’s IMA management agreements, individually or as a group, will provide for diversification by property type, economic sector and location in order to minimize any such concentration which might, in turn, impact the stability of rental income over market cycles. The System will diversify its manager risk by utilizing multiple IMA managers.

Commingled Funds

Diversification by Strategy and Manager will be used to minimize sponsor or strategy concentration, which might, in turn, impact the performance of the Enhanced and High Return allocation and/or the total portfolio. The

Commingled Funds will provide reporting which will allow the System to monitor its geographic and property type diversification.

4) *Leverage*

The use of leverage is a prudent tool for enhancing returns and diversifying equity investments. As such, the System has approved leverage targets in order to maximize returns to the total portfolio. The availability and cost of leverage will be factors considered in determining its use.

a. Core

Core assets generally provide an established stream of rental revenue. Because of the predictability of the income stream, third-party debt can be used at relatively low risk to enhance return. For Core real estate investments, the Retirement System has established a thirty-five percent (35%) leverage target. For any single Core asset, third-party debt will be limited to fifty percent (50%) of the market value of the asset, must provide sufficient net operating income ("NOI") for one hundred percent debt-service coverage and must be non-recourse. Property specific debt will be monitored through the Manager Investment Plans and Preliminary Investment Packages. In all cases, leverage shall provide a return premium over the unleveraged IRR equal to three basis points (3 bps) of return for each one percent (1%) of leverage.

b. Enhanced and High Return

Investments classified as Enhanced and High Return generally provide a higher proportion of appreciation, as compared to income, than do Core assets. The System has determined that leverage on these real estate investments should be determined based on strategy and opportunity. Such investments will be made through Commingled Funds and will therefore have a specified leverage target or maximum stated in the offering documents. Debt levels and structures will be evaluated when reviewing a specific offering.

5) Investment Size

There is no maximum investment size for equity real estate investments, however, at no time shall the net investment value of a single property within an IMA account exceed five percent (5%) or a Commingled Fund exceed ten percent (10%) of the net investment value of the total targeted real estate portfolio. In addition, the capital allocated to any single Commingled Fund shall not exceed a pro rata position of twenty percent (20%) of the total equity raised by the final close of the investment vehicle.

6) Valuations

All investments in an IMA vehicle will be independently valued not less than annually by a qualified expert (certified MAI). During interim periods, valuations will be performed by the Investment Manager responsible for management of each investment. Such interim valuations may be used for performance measurement purposes.

Investments held in Commingled Funds will be valued using the valuation methodology approved with the selection of the particular investment.

C. Discretionary Authority

The Policies and Procedures described herein are structured to control investment risk as well as to enhance the System's ability to execute transactions.

1) *Individual Managed Accounts*

The IMA Manager selection process, more fully described in Section IV.A.1 of this document, is structured to ensure prudent Manager selection in order to allow Manager(s) to assume an appropriate level of discretion, balanced by controls established and monitored by the Board, Staff and Consultant. Preference will be given to those IMA vehicles allowing greater investor control.

2) *Commingled Funds*

CFs are structured to give the highest level of discretion to the Manager. The limited investor control of management decisions inherent in CF investments is appropriate given the flexibility required to achieve higher expected returns. Nonetheless, preference will be given to those CF vehicles extending greater investor control. Investments made in CFs are monitored for compliance with vehicle documents through quarterly performance measurement procedures.

3) *Retention Policies*

IMA Real estate investment advisors operate under three-year contracts with the Board. Real estate advisors are evaluated on a three-year cycle in tandem with the contract cycle. Advisors that have not met or exceeded the NCREIF Property Index by the premiums associated with the style of investment (see Section 3.3A of this document) in any year will be placed on watch. Advisors performance is then reviewed each year for the next two years. If the advisor's performance from the beginning of the watch period through the succeeding two years is less than the expected return, the advisor's contract will be terminated and the advisor will be replaced.

Not withstanding the above, the Board maintains the right to terminate a manager at any time they deem such action to be in the best interest of the System.

INVESTMENT PROCEDURES

3.4 The Annual Investment Plan identifies the investment needs of the portfolio and establishes the parameters for the selection of appropriate investments. The particular needs for each Annual Investment Plan will be established in light of the structure, objectives and performance of the existing portfolio as well as current market opportunities. All Annual Investment Plans will be consistent with the policies detailed in Section 3.3A-C.

A. Individually Managed Accounts

The following procedures will be utilized for selection of IMA Managers, as well as for investment and the subsequent control and monitoring of IMA allocations.

1) *Manager Selection Process*

a. Board, assisted by Consultant, shall establish qualification criteria consistent with the purpose of the search.

b. Consultant shall screen its database to identify Manager candidates exhibiting qualities consistent with the qualification criteria. Board may identify additional candidates.

c. Board, assisted by Consultant, shall establish evaluation areas, desired levels of competency and respective weightings for evaluation factors.

d. A Request for Information (RFI) shall be forwarded to qualified Manager candidates identified by Consultant and Board.

e. Staff and Consultant shall review and evaluate RFI responses, identify material issues related to each candidate, including proposed fee structures, and compile numerical rankings for each respondent for each objective evaluation factor.

f. Staff and Consultant, shall prepare a report to the Board that reviews the findings of interviews/on-sites.

g. Staff, with the assistance of Consultant, shall coordinate final presentations which will be held at a noticed meeting.

h. The Board shall select a Manager based on review and evaluation of information presented in the steps listed above.

i. Staff and Consultant will negotiate and close manager agreements, including final fee structures.

2) Investment

a. Manager Investment Plan

Each IMA Manager shall prepare a Manager Investment Plan, which sets forth the investment criteria for said Manager's allocation including the reinvestment of proceeds from sales or refinancings. The investment criteria shall be consistent with the Strategic Plan and Investment Plan. Plans will also set forth the IMA Manager's evaluation of current market opportunities and include a summary of the Annual Disposition Review (see Section IV.A.3c of this document) of each asset in the context of the market evaluation. Each plan shall be updated annually.

b. Review and Approval Process

The Board will review and approve all purchases, sales or exchanges of real property. The IMA manager will notify Staff and Consultant of a property proposed for acquisition by the System. The formal approval process is attached as Appendix 1 to this document.

c. Funding Procedures

The Manager shall provide the Staff and Consultant with a critical dates list with respect to an acquisition, including document execution and funding and closing dates, updating the list as necessary.

3) *Control and Monitoring*

a. Budget and Management Plan

Within 45 days after the end of the calendar year each IMA Manager shall submit a Budget and Management Plan for the upcoming year for each direct investment and the aggregate IMA portfolio. The Budget and Management Plan must include a narrative strategy and an estimated income and cash flow statement for the ensuing year. The statement will include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management, incentive and other fees along with quarterly or monthly distribution projections.

Staff and Consultant will meet with the Manager personnel directly responsible for portfolio and asset management for a review and evaluation of the reasonableness of the submitted Budget and Management Plan.

During the ensuing year, the Manager shall notify the Retirement System in writing within a reasonable time of the occurrence of any significant event relating to an investment, which was not projected in the submitted Budget and Management Plan.

b. Annual Disposition Review

IMA Managers shall provide an annual disposition analysis of each asset under management. The disposition analysis shall include hold/sell scenarios over long and short-term periods and incorporate an opportunity cost analysis. The analysis will also provide an evaluation of the asset in light of original investment objectives, the asset's compliance with the current Strategic Plan, Investment Plan and Manager Investment Plan and the reasonableness of the current valuation given market conditions for divestment.

The Annual Disposition Review shall be included in the Budget and Management Plan and the Manager Investment Plan.

B. Commingled Funds

The following procedures will be utilized in the selection, closing and monitoring of specific CF investments.

1) *CF Selection Process*

a. Consultant reviews current offerings and Board requests using criteria established in the approved Strategic and Annual Investment Plans.

b. Consultant and Staff concur on recommendations to go to the Board.

c. Consultant and Staff present recommendations to the Board for approval.

2) CF Screening Standards

a. CF vehicles will be used to provide either 1) unique or opportunistic strategies which are not readily available through separate accounts, or 2) exposure to property categories not adequately represented in the portfolio.

b. Funds with competitive terms/structure on overall basis including fees, expenses, governance provisions, lockup periods, reasonableness of fund-raising goals in relation to existing assets and capacity.

c. Funds/managers with favorable track records evaluated in context of property type(s) invested in and risks taken (leverage, leasing, development, redevelopment, etc.). No investment in a first-time Fund unless the fund sponsor has experience investing institutional capital as a fiduciary and can show full cycle returns (e.g. buy, hold and sell) using the same strategy.

d. Funds with favorable management factors, including experience of personnel, length of time key players have worked together, incentive-oriented compensation structure for decision-makers, etc.

e. Funds with manager interests aligned with investors -- either by co-investment or performance-oriented fees or both.

3) *CF Control and Monitoring*

CF investments will be monitored quarterly by Staff, with Consultant's assistance, to evaluate investment performance and to ensure compliance with vehicle documents.

C. Performance Measurement Report

On a quarterly basis, the Consultant will prepare a comprehensive reporting and evaluation system addressing each investment and/or asset, IMA, and Manager. The evaluation system shall provide such information as may be required by the Retirement System to understand and administer its investments and Managers.

The content of the report shall include attributes for the assets individually (under IMAs), the investment managers and the total portfolio including: income, appreciation, gross and net returns, cash-flow, internal rate of return, diversification, comparisons to relevant industry performance indices and information reporting standards, and Strategic Plan and Investment Plan compliance. Each investment will be reviewed for significant events and projected performance and an opinion provided with respect to Manager performance. Budget and Management Plan variances, as reported by IMA Managers, will also be provided.

The Consultant shall prepare and forward to the Retirement System a Performance Measurement Report within ninety (90) days following the last day of each quarter given receipt of full and complete manager reporting.

HISTORY

3.5 Adopted: November 17, 2005; Revised: 07/20/06, 09/07/06, 01/18/07, 02/01/07, 05/03/07, 04/17/08, 07/10/08, 06/18/09, 08/20/09

REVIEW

3.6 This policy shall be reviewed by the Board annually in May.

APPENDIX 1 - LAFPP APPROVAL PROCESS
(Separate Accounts Only)

Step 1

A preliminary Investment Recommendation from the investment advisor will be presented to the full Board, for review and approval, including a full description of property and market details, the investment advisor's best estimates of all numbers, a detailed description of all known environmental issues (if any), a detailed due diligence budget and a detailed summary of the pros/cons of the transaction.

Step 2

The Board will review and approve or disapprove the transaction. Any approval of the transaction by the Board will be required to include the positive vote of at least one of the active Fire and Police representatives and will be subject to investment advisor's satisfaction of the following requirements (the "Closing Requirements"):

- A letter from the investment advisor to the CIO certifying that it has found nothing in the due diligence process which materially and adversely impacts its investment recommendation. If the investment advisor's due diligence discovers any new matters that would have a material and adverse effect on the property or the fund, then such new matters will be subject to review and approval by the Board.

- The letter shall include a copy of all third party reports.

- The letter shall include a representation by the investment advisor that there are no adverse environmental matters that were not previously disclosed to the Board, other than those described in the initial report that was presented to the Board for review and approval. If there are any new environmental matters that would have an adverse effect on the property or the fund, then such new matters will be subject to review and approval by the Board.

- The letter shall also include a representation by the investment advisor that to the investment advisor's best knowledge, the projected IRR of the property will equal or exceed 50 BP less than the projected IRR that was previously approved by the Board. If the projected IRR will not equal or exceed 50 BP less than the projected IRR that was previously approved by the Board, then such new projected IRR will be subject to review and approval by the Board.

- A letter from the Fund's real estate consultant to the CIO certifying that the appraised value of the property is not less than 95% of the final purchase price. If the appraisal does not equal or exceed 95% of the final purchase price, then the transaction will be subject to review and approval by the Board.

- A letter from the Fund's real estate consultant to the CIO with a positive written recommendation to proceed with the transaction. If the Fund's real estate consultant does not recommend the transaction, then the transaction will be subject to review and approval by the Board.

- A letter from the CIO to the investment adviser (copy to the Board) stating that the requirements in Step 2 have been satisfied. If the CIO does not state in writing that the requirements in Step 2 have been satisfied, then the transaction will be subject to review and approval by the Board.

Step 3

If the Closing Requirements in Step 2 above are satisfied (and remain satisfied through the closing of the transaction), then the investment advisor can close the purchase without returning to the Board for a second approval.

If any of the Closing Requirements in Step 2 are not satisfied (or if any such Closing Requirements fail to remain satisfied through the closing of the transaction), then the investment advisor will be required to return to the Board for approval of a closing with respect to any unsatisfied Closing Requirement.

4.0 - REAL ESTATE EMERGING MANAGERS

GUIDELINES

4.1 Barriers to entry for new firms launching established or new product strategies often provide opportunity to capitalize on niche management firms and/or strategies. Therefore, such ‘Emerging Manager’ firms shall be evaluated based on the following criteria:

A. Emerging Managers will be defined as those with less than two ($2) billion dollars in assets under management, fewer than five (5) years as an institutional manager and/or those offering an initial institutionally focused commingled fund vehicle.

B. The firm should currently manage no less than $100 million in the selected strategy. In the absence of current assets under management, a realized track record reflecting implementation of the strategy to the same degree is acceptable. A preference for other public fund experience will be given.

C. The capital to be allocated may not exceed 35% of the firm's total assets under management after the allocation and no more than 20% of capital raised for a specific commingled vehicle.

D. No client can represent more than 50% of the management firm's total assets under management.

E. Any firm with less than a five year track record may utilize track records established at prior firms when performance can be clearly attributed to the emerging firm's key individuals and/or the specific team associated with the opportunity.

HISTORY

4.2 Adopted: August 3, 2006; Revised 04/17/08; 07/10/08

REVIEW

4.3 This policy shall be revised as necessary.

5.0 - EMERGING MANAGERS

GUIDELINES

5.1 It is the policy of the City of Los Angeles to utilize Minority and Women-Owned Business Enterprises and all other business enterprises in all aspects of contracting relating to procurement, construction and personal services (Executive Directives 1-B and 1-C). In addition, it has been the experience of the Board of Fire and Police Pension Commissioners that certain minimum requirements of size and experience as a firm have excluded investment managers whose past performance and style of management made them otherwise qualified to manage this Pension System's assets.

To further the City's policy, and to provide the Board opportunities to contract with managers excluded from past searches, it shall be the policy of the Board of Fire and Police Pension Commissioners that emerging investment managers be provided equal opportunities to participate in investment manager contracts awarded by the Board of Fire and Police Pension Commissioners. The provision of these opportunities is to be consistent with the fiduciary responsibilities of the Board.

For all public security assets, emerging managers are defined as independent investment management firms that manage less than $1,500 million in firm-wide assets for any emerging manager retained directly by LAFPP. The LAFPP Board shall review the definition of emerging manager for each Emerging Manager search that is conducted. For the LAFPP Private Equity Specialized Portfolio, the Board approved that the Consultant shall concentrate on funds under $500 million in assets under management. The LAFPP Real Estate Consultant defines emerging manager as any fund with $2 billion in assets under management. Please refer to the real estate consultant, Townsend Emerging Manager criteria for full details.

CRITERIA FOR SELECTION OF EMERGING MANAGER SEARCHES

5.2 Prior to a search in any part of its portfolio, the Board will determine whether they will conduct an emerging manager search in that same asset category. For each case, the Board shall determine whether they will implement the emerging manager search through a fund of emerging manager funds, or directly.

Any search for an emerging manager will be conducted separately from other searches, including a search for a money manager of the same style to run assets of such an amount as to preclude emerging managers from participating in the search.

As a guide for any direct emerging manager searches by LAFPP, staff and/or the General Investment Consultant is directed to use the minimum following qualifications in the preliminary screening:

QUALIFICATIONS

5.3 A. One year of operation as an investment management firm as of the date of the search.

B. The portfolio manager(s) assigned to the Pensions account must each have a minimum of five years of experience in investment management.

C. As of the date of the search, the firm must have a minimum of $30 million in institutional assets under management of which $10 million must be in the proposed investment style.

D. The firm must have at least one tax-exempt account under management.

The above qualifications and criteria shall remain in place until such time as they are revised by the Board. The Board may revise any of the above minimum qualification for any specific search if it is deemed appropriate for that specific search.

MONITORING AND CHANGE OF STATUS

5.4 Emerging Managers and Funds of Emerging Manager Funds shall be subject to the standard Monitoring and Watch Status procedures of LAFPP. Staff will report to the Board annually regarding any change of status of Emerging Managers in the Program.

When an emerging manager is retained directly by LAFPP, staff shall automatically notify the Board when that emerging manager's assets under management grow larger than the LAFPP Policy-defined maximum assets under management of $1.5 billion.

When an emerging manager is retained by LAFPP through a fund of emerging manager funds, the fund of funds manager shall automatically notify the LAFPP Board when an emerging manager exits the fund of funds due to growth in the emerging manager's assets under management.

FUNDING

5.5 When an emerging manager is selected by the Board, the size of funding will be determined based on the needs of the Systems and the capacity and experience of the manager. In no case shall the Board's funding exceed fifty percent of the total assets managed in a similar product or style of portfolio by the manager, including the Board's allocation. (Funding language added 3/14/91).

As part of any staff and or General Investment Consultant analysis and recommendations regarding our asset manager structure, staff is directed to address the Department's Emerging Manager Policy.

NUMBER OF EMERGING MANAGERS

5.6 The number of emerging managers in each major asset class shall not exceed the number of non-emerging managers. (Added 5/20/93)

HISTORY

5.7 Adopted: February 21, 1991; Revised: 05/20/93, 03/19/97, 07/09/09

REVIEW

5.8 This policy shall be revised as necessary.

6.0 - FUND OF HEDGE FUND PROGRAM INVESTMENTS

PURPOSE

6.1 This document sets forth the investment policy (“the Policy”) for the Los Angeles Fire & Police Pension System’s Fund of Hedge Fund Program (“the Program”). The intent of this Policy is to ensure that investors, managers, consultants, staff or others selected by the Los Angeles Fire & Police Pension System (“LAFPP”, or "the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this segment of the portfolio.

The Program is intended to meet LAFPP’s long-term actuarial target rate of return through the identification and participation in fund of hedge fund opportunities that are expected to generate attractive absolute rates of return while also providing diversification benefits. The current allocation to the Program will be up to five percent (5%) of the Fund.

STRATEGIC OBJECTIVES

6.2 Broadening the opportunity set of the System’s investment portfolio for achieving consistent investment returns not available in traditional public markets investments is the strategic objective of investing in fund of hedge funds. The Program is expected to develop a diversified portfolio of fund of hedge funds capable of achieving targeted investment returns on a risk-adjusted basis that are complementary to overall Portfolio goals. Fund of hedge fund investment returns are expected to exhibit lower volatility than public investments for a given level of return while also being less correlated to the major asset classes. Total rates of return from fund of hedge fund investments are expected to be absolute return oriented while emphasizing the preservation of capital. A secondary benefit of including fund of hedge funds in the alternative investment allocation is that they are commonly more liquid vehicles than private market investments, and therefore can also be utilized as a future funding source for private market commitments.

Fund of hedge fund investments shall be selected solely in the interest of the System’s participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

A. Enhance the System’s long-term risk-adjusted total return.
B. Provide added diversification to the System’s overall investment program.
C. Hedge against long-term liabilities.
D. Maintain a low correlation with the public domestic equity markets.

RESPONSIBILITIES AND DELEGATIONS

6.3 A. The Board shall approve and amend the Fund of Hedge Fund Program Investment Policy and investments considered for the Program. In addition, the

Board shall oversee program performance and will act in a fiduciary capacity in the exercise of its duties.

B. Staff shall:

1) Manage day-to-day operations
2) Review consultant's work for reasonableness
3) Make recommendations to the Board
4) Execute agreements
5) On-going reporting to the Board
6) Manager monitoring and performance review

C. Consultant shall assist in the development and implementation of the Program and, in that capacity, will act as fiduciary to the System.

Appendix 1 outlines specific responsibilities and tasks to be performed by the Board, Staff and performance consultant.

PERFORMANCE OBJECTIVE

6.4 Given the absolute return/capital preservation orientation of fund of hedge fund investments, the long-term (5-10 years) expected performance objective of the Program, net of all fees, shall be the annualized rate of return of T-Bills plus 400 basis points. Use of the T-Bills reflects the absolute return nature of hedge fund investments while the 400 basis point premium accounts for higher degrees of risk undertaken. Program volatility is expected to be half as much as public equity markets (as represented by the S&P 500) and is targeted not to exceed an annualized standard deviation of 8.0%. The Program is expected to maintain a low correlation to domestic public equity markets as represented by a correlation below .50 to the S&P 500.

INVESTMENT APPROACHES AND PARAMETERS

6.5 A. General Approach

Investments in the Program shall be selected to achieve stated performance objectives. In addition, Program investments are expected to be complimentary to the private equity investments in the alternative investment allocation and to the traditional investment vehicles in the Total Portfolio.

1) The Program shall initially utilize fund of hedge funds to generate the attractive risk-to-reward characteristics provided by these specialized and unique investment strategies.

2) The Program shall invest in funds through partnerships or other formation structures, e.g., limited liability companies (LLCs), where the general partner(s) or fund manager(s) have expertise in the specified mandates and in related areas material to the success of each investment strategy.

3) The inclusion of specified terms in hedge funds shall protect the interests

of the System, and shall address at a minimum the following issues:

a. Alignment of Interests: Vehicle terms shall be reviewed to assess the alignment of the General Partner's interest with the System. The management fee, performance fee, performance objective, lock-up period, liquidity, General Partner investment, and other relevant terms to protect the System in the event of adverse performance results, shall be examined.

b. Leverage: It is recognized that hedge fund strategies may expose the System's assets to leverage, meaning that an underlying partnership's market exposure may exceed the market value-adjusted capital commitment by the amount of borrowed capital. Therefore, investments should only be made in investment vehicles (specific to hedge funds) which provide limited liability. The limited liability structure protects the Program from losing more than its invested capital.

B. Investment Selection

Fund of hedge funds shall be selected to enhance the Program's ability to achieve the overall investment objective. Fund of hedge funds invest in a portfolio of individual hedge funds applying different investment strategies.

1) Such strategies that might be implemented through a fund of hedge funds could include, but is not limited to:

a. Convertible Arbitrage
b. Distressed Securities
c. Fixed Income Arbitrage
d. Long/Short Credit
e. Long/Short Equity
f. Market Neutral
g. Merger Arbitrage
h. Multiple Arbitrage
i. Statistical Arbitrage
j. Commodity Trading Advisors
k. Global Macro
l. Emerging Markets

In no event, however, will a fund of hedge funds, or its underlying hedge funds, utilize a strategy that includes market timing or late trading of mutual fund shares.

2) The fund of hedge funds manager will employ hedge funds that enter into long and/or short positions using, but not limited to, any of the following instruments:

a. Equities:

i. Common or preferred corporate stock traded on principal U.S. exchanges;
ii. Convertible corporate bonds, notes, or debentures.
iii. Global Depository Receipts (GDRs) and American Depository Receipts (ADRs)

b. Fixed Income:

i. Marketable investment-grade and non-investment grade debt securities;
ii. Marketable non-U.S. debt securities;

c. Derivatives

i. Exchange traded equity, fixed income and currency futures contracts;
ii. Index futures contracts;
iii. Over-the-counter (“OTC”) option contracts;
iv. OTC forward foreign exchange contracts;
v. Swaps
vi. Cash and money market instruments.

3) Selection guidelines for prospective fund of hedge funds shall be developed and maintained (see Appendix 2). These criteria shall be subject to review by:

a. The Board,
b. Staff and manager selection consultant

To ensure conformity to the return and risk expectations of the Program, the selection guidelines may include, but are not limited to the following:

Minimum requirements with respect to the following:

a. General Partner Investment Experience
b. Basic Investment Vehicle Terms
c. Investment Goals and Objectives
d. Performance Criteria
e. Other relevant parameters that may apply

C. Management of Investments

The Program shall be continually monitored and refined as needed to obtain the most effective mix of investments. The Program shall initially invest in fund of hedge fund investments.

Investments shall be continually reviewed in the following areas:

1) Fit with the Program Goals and Objectives;
2) Targeted performance according to stated objectives;
3) Targeted risk according to stated objectives;

4) Diversity of underlying hedge funds;
5) Strategy diversification;
6) Growth of assets;
7) Organizational changes;

D. Quality Control Processes

The Program shall employ a quality control process, which includes both the Staff and performance consultant to monitor Program efficiency, track investment performance, and control risk.

1) Process Monitoring: Staff shall monitor transaction processing to insure timely decision-making and an effective process.
2) Monitoring Portfolio Performance: Actual net returns and risk will be compared to benchmark(s) as appropriate, and to the expected return for the fund of hedge fund investment.
3) Risk Control: Program standards are maintained through the following processes:

    a. Assessing the level of diversification in the portfolio on a regular basis, including the level of diversification across fund of hedge fund managers, investment strategy, underlying hedge fund manager, and across other factors as appropriate.
    b. Documenting due diligence activities.

E. Specific Risk Parameters

The Program will be exposed to specific risk parameters that are associated with investing in hedge funds, including, but not limited to:

1) Operating and Business Risk: Certain hedge funds entail above average operating and business risk.
2) Country Risk: Political, economic, and currency risks associated with investing outside of the U.S.
3) Valuation Risk: Some underlying holdings may be illiquid and not marked to market very frequently. Therefore, there is risk of lagged valuations as a holding is priced less often.
4) Financial Leverage Risk: Many hedge funds employ high amounts of leverage to underlying portfolio investments increasing the risk of loss of capital.
5) Disclosure Risk: Hedge funds are commonly reluctant to provide transparency regarding their portfolio positions limiting an investor's ability to aggregate exposures.
6) Regulation Risk: Hedge funds and their managers are unencumbered by any government oversight or restrictions. However, regulators in many jurisdictions have begun to regulate hedge funds to varying degrees.

F. Guidelines for Evaluating Program Candidates

Proposed investment opportunities shall be evaluated relative to their fit with the Program's Investment Policy. Appendix 2 contains minimum criteria to be utilized in the screening of candidates.

BENCHMARK

6.6 The performance benchmark for the Program shall be the annualized rate of return of T-Bills plus 400 basis points. As appropriate, individual managers may be benchmarked against specific customized benchmarks and hedge fund indices may be utilized for relative market comparisons. LAFPP's current Manager Retention Policy shall apply to managers selected for the fund of hedge funds Program.

GENERAL

6.7 Reporting

A. Reports received from fund of hedge fund managers:

Staff shall require periodic reports (i.e. monthly and quarterly) from fund of hedge fund managers to facilitate monitoring.

B. Monitoring Investments:

Staff (assisted by an external performance consultant) shall monitor individual fund of hedge fund managers and the Program as a whole. Monitoring includes performance measurement addressed below and may include other unique aspects to fund of hedge funds, such as:

- number of underlying hedge fund managers
- allocations across investment strategies
- asset growth at both the firm level and the fund level
- personnel changes

C. Performance

The System shall assess the net performance of fund of hedge fund investments relative to the following areas:

1) Established objectives at both the Program level and fund of hedge fund manager level (if appropriate)
2) Monthly, quarterly, annual, since inception, etc.
3) Risk undertaken (i.e. volatility)
4) Correlation below .50 with public equity markets

D. Board Reports

Quarterly reports shall be provided to the Board. These reports include, but shall not be limited to, performance reviews of individual fund of hedge fund managers (net of all fees) and aggregate Program results.

HISTORY

6.8 Adopted: June 9, 2005

Amended:
09/18/2008

REVIEW

6.9 This policy shall be reviewed by the Board annually in June.

APPENDIX 1 - DESIGNATED RESPONSIBILITIES AND TASKS

Responsibilities of the LAFPP Board

Policy and Guideline Development

- Approve:
  - Investment Policy and Guidelines

Manager Selection

- Review due diligence report prepared by consultant and reviewed by Staff
- Interview management teams of proposed investments
- Approve or reject proposed investment opportunity

Performance Monitoring

- Receive and review performance reports

Responsibilities of LAFPP Staff

Recommendations to the Board

- Develop recommendations regarding Investment Policies and Guidelines

Due Diligence

- Review manager selection consultant report, analysis, and recommendations for qualitative and quantitative reasonableness;
  - Recommend to the Board if appropriate;

Investment Administration

- Investments approved by the Board; documents executed by Staff
  - Reviews and approves contracts, modifications, and other documentation;
  - Manages day to day LAFPP operations including setting up communications, setting up the appropriate custodial accounts, data requirements and standard wire instructions
  - Fund selected managers
  - Reviews and processes a variety of reports from fund of hedge fund managers

Performance Monitoring

- From fund of hedge fund managers
  - Receives and reviews monthly/quarterly reports
- From performance reporting consultant
  - Receives and reviews quarterly reports

Responsibilities of manager selection consultant

Deal Flow Management

- Sourcing Opportunities

- Identify candidates through internal and external sources
- Screen performance of potential investments
- Review candidates for minimum qualifications

Investment Due Diligence

- Long List of Candidates:
    - Analyze:
        - Investment strategy
        - Organizational structure
        - General Partner background and experience
        - Track record
        - Terms
        - Alignment of interest
    - Upon completion, review findings with LAFPP and recommend finalist candidates;

- Finalist Candidates:
    - Conduct reference checks
    - Conduct onsite visit as appropriate
    - Extensively review economic and business terms of legal documents
    - Upon completion, prepare and issue report to LAFPP a finalist book to accompany finalist presentations
    - Arrange meeting to review materials and perform interviews

Responsibilities of performance consultant

Performance Monitoring

- Performance consultant
    - Receives monthly and quarterly performance reports from fund of hedge fund managers
    - Verifies performance of the fund of hedge fund managers and reconciles same with the manager and master custodian, as needed
    - Prepares quarterly reports
        - Program level results
            - Returns
            - Risks
        - Manager level results
            - Returns
            - Risks

APPENDIX 2 - GUIDELINES FOR INVESTMENT EVALUATION

Organization: Firms considered for this Program are expected to include established, long-tenured firms in addition to potentially including recently formed organizations that may have relatively short track records. The principals shall be required to dedicate sufficient time and effort to the investment opportunity. The organization must have sufficient investment professionals and support staff to implement the proposed strategy. Alignment of interests (including ownership, compensation, general partner investment in fund/firm, etc.) will be important factors in the proposed investment opportunities.

Investment Experience: LAFPP shall consider only fund of funds whose professionals have significant experience managing hedge fund assets. The principals shall demonstrate relevant experience and that they are specifically qualified to work in the market in which they propose to work. LAFPP shall not consider vehicles with less than three years of performance track record managing hedge funds of funds for institutional level investors. The experience of the investment professionals at the firm managing the proposed investment vehicle will be reviewed to ensure that experienced professionals are overseeing the investment. However, the fund of hedge fund may engage individual hedge funds that have limited track records.

Performance: Proposed investment opportunities must have outperformed the Program return objectives, net of all fees, over the latest three-year period. The investment vehicle must also exhibit attractive risk characteristics having generated a Sharpe Ratio in excess of 1.0 over the same time period.

Investment Strategy: The investment strategy of potential investment opportunities shall be assessed for appropriateness given the Program's goals and objectives. The proposed investment strategy and approach to portfolio construction shall provide reasonable assurance that the investment opportunity can produce the required return.

Fund size: LAFPP shall not represent more than 20% of a firm's assets and therefore shall not consider a fund of hedge funds having less than $200 million in assets under management (assuming initial mandate sizes of $40 million). However, the fund of hedge fund may engage individual hedge funds that have less assets under management that do not meet this minimum.

Terms: At a minimum, investment terms are expected to be "in-line" with industry norms. In particular, the management fee, performance fee, utilization of a high water mark, and liquidity terms shall be examined to ensure appropriateness.

APPENDIX 3 - GLOSSARY OF TERMS

Commodities: A sub-set of the managed futures investment approach that mainly involves the trading of derivatives and forward markets in the commodity sector. Commodity Trading Advisers (CTAs), regulated by the Commodity Futures Trading Commission (CFTC), are commonly retained to implement such strategies.

Convertible Arbitrage: Convertible arbitrage is the trading of related securities whose future relationship can be reasonably predicted. Convertible securities are usually either convertible bonds or convertible preferred shares, which are most often exchangeable into the common stock of the company issuing the convertible security. The managers in this category attempt to buy undervalued instruments that are convertible into equity and then hedge out the market risks. Fair value is based on the optionality in the convertible bond and the manager's assumption of the input variables, namely the future volatility of the stock.

Directional Strategies: These strategies do not fit cleanly in either of the two above strategies and are commonly a hybrid of the two.

Short Selling: The short selling discipline has an equity component as well as fixed income component. Short sellers seek to profit from a decline in the value of stocks. In addition, the short seller earns interest on the cash proceeds from the short sale of stock.

Emerging Markets: Emerging market hedge funds focus on equity or fixed income investing in emerging markets as opposed to developed markets. This style is usually more volatile not only because emerging markets are more volatile than developed markets, but also because most emerging markets allow for only limited short selling and do not offer a viable futures contract to control risk. The lack of opportunities to control risk suggests that hedge funds in emerging markets have a strong long bias.

Distressed Securities: Distressed securities funds invest in the debt or equity of companies experiencing financial or operational difficulties or trade claims of companies that are in financial distress, typically in bankruptcy. These securities generally trade at substantial discounts to par value. Hedge fund managers can invest in a range of instruments from secured debt to common stock. The strategy exploits the fact that many investors are unable to hold below investment grade securities.

Diversified: A diversified fund-of-hedge fund is a multi-strategy, multi-manager product that has exposures spanning the spectrum of hedge fund investment strategies. The blend of underlying hedge fund strategies incorporated into a diversified fund-of-hedge fund (i.e., portfolio construction) is commonly a function of the specific risk and return characteristics of the product.

Equity Market-Neutral: Equity market-neutral is designed to produce consistent returns with very low volatility and correlation in a variety of market environments. The investment strategy is designed to exploit equity market inefficiencies and usually involves being simultaneously long and short matched equity portfolios of the same size within a country. Market neutral portfolios are designed to be either beta or currency-neutral or both. Equity market-neutral is best defined as either statistical arbitrage or equity long/short with zero exposure to the market.

Event Driven: This investment strategy class focuses on identifying and analyzing securities that can benefit from the occurrence of extraordinary transactions. Event-driven strategies concentrate on companies that are, or may be, subject to restructuring, takeovers, mergers, liquidations, bankruptcies, or other special situations. The securities prices of the companies involved in these events are typically influenced more by the dynamics of the particular event than by the general appreciation or depreciation of the debt and equity markets. For example, the result and timing of factors such as legal decisions, negotiating dynamics, collateralization requirements, or indexing issues play a key element in the success of any event-driven strategy.

Fixed Income Arbitrage: Fixed income arbitrage managers seek to exploit pricing anomalies within and across global fixed income markets and their derivatives, using leverage to enhance returns. In most cases, fixed income arbitrageurs take offsetting long and short positions in similar fixed income securities that are mathematically, fundamentally or historically interrelated. The relationship can be temporarily distorted by market events, investor preferences, exogenous shocks to supply or demand, or structural features of the fixed income market.

Global Macro: Macro hedge funds pursue a base strategy such as equity long/short or futures trend following to which large scale and highly leveraged directional bets in other markets are added a few times each year. They move from opportunity to opportunity, from trend to trend, from strategy to strategy.

Long/Short Equity: Long/short strategies combine both long as well as short equity positions. The short positions have three purposes, which can vary over time or by manager. First, the short positions are intended to generate alpha. This is one of the main differences when compared with traditional long-only managers. Stock selection skill can result in doubling the alpha. A long/short equity manager can add value by buying winners as well as selling losers. Second, the short positions can serve the purpose of hedging market risk. Third, the manager earns interest on the short as he collects the short rebate.

Merger Arbitrage: Merger arbitrage (also known as risk arbitrage) specialists invest simultaneously in long and short positions in both companies involved in a merger or acquisition. In stock swap mergers, risk arbitrageurs are typically long the stock of the company being acquired and short the stock of the acquiring company. In the case of a cash tender offer, the risk arbitrageur is seeking to capture the difference between the tender price and the price at which the target company's stock is trading.

Relative Value Strategies: This class of investment strategy seeks to profit by capitalizing on the perceived mispricings (in the manager's opinion) of related securities or financial instruments. Generally, relative-value and market neutral strategies avoid taking a directional bias with regards to the price movement of a specific stock or market. This makes this style most appealing for investors who are looking for high and stable returns accompanied by low correlation to the equity market.

Sharpe Ratio: This ratio is a risk-adjusted measure of a fund's performance. It is calculated as follows [(annualized rate of return)-(annualized risk-free interest rate)] / annualized standard deviation. For example, a fund with a Sharpe Ratio greater than 1.0 is achieving more than one unit of excess return per unit of risk undertaken.

7.0 - PROXY GUIDELINES

PROXY ISSUES

The Board delegates to the General Manager the voting of normally routine proxy solicitation matters, such as election of directors and appointment of independent auditors. Exceptions shall be brought to the Board's attention at the General Manager's discretion.

The Board authorizes the General Manager to vote accordingly on the following proxy issues:

7.1 **Election of Directors** – Withhold votes from director nominees if 40% or more of the directors are (1) employees or (2) have financial ties to the company, if 33% or more serving on the nominating committee are employees or have ties, if any director nominee attends less than 75% of the board and committee meetings during the previous fiscal year, if the company does not have an independent chair or lead director, or from audit committee member nominees if non-audit services exceed 40% of fees. In a contested election, vote for all management nominees.

7.2 **Ratify Selection of Auditors** – Vote for unless the non-audit services exceed 40% of fees.

7.3 **Name Change** – Always vote for a management proposal to change the company name.

7.4 **Other Business** – Always vote for a management proposal to approve other business.

7.5 **Adjourn Meeting** – Always vote for a management proposal to adjourn the meeting.

7.6 **Technical Amendments** – Always vote for a management proposal to make technical amendments to the charter and/or bylaws.

7.7 **Financial Statements** – Always vote for a management proposal to approve financial statements.

7.8 **Increase Authorized Common Stock** – Vote against if the increase is not intended to effect a merger, stock split, or recapitalization.

7.9 **Decrease or Amend Authorized Common Stock** – Always vote for a management proposal to decrease or amend authorized common stock.

7.10 **Issuance or Exercise of Stock Warrants** – Always vote for a management proposal to approve the issuance or exercise of stock warrants.

7.11 **Authorize or Increase Preferred Stock** – Vote against if the board has unlimited rights to set the terms and conditions of the shares.

7.12 **Decrease or Amend Authorized or Cancel Series of Preferred Stock** – Always vote for a management proposal to decrease or amend authorized preferred stock or to cancel a class or series of preferred stock.

7.13 **Issuance or Conversion of Preferred Stock** – Vote against if the dilution represents more than 20% of the total voting power.

7.14 **Preemptive Rights –** Vote for a management proposal to create or restore preemptive rights, and vote against a management proposal to eliminate preemptive rights.

7.15 **Dual Class Stock** – Always vote for a management proposal to eliminate authorized dual or multiple classes of common stock. Always vote against a management proposal to amend authorized or to increase authorized shares of one or more multiple classes of dual or multiple class common stock.

7.16 **Share Repurchase** – Always vote for a management proposal to approve a stock repurchase program.

7.17 **Stock Splits** – Always vote for a management proposal to approve or reverse a stock split.

7.18 **Recapitalization & Restructuring –** Always vote for a management proposal to approve recapitalization or to restructure the company.

7.19 **Reincorporation** – Always vote for a management proposal to reincorporate in a different state.

7.20 **Spin-offs** – Always vote for a management proposal to spin off certain company operations or divisions.

7.21 **Sale of Assets** – Always vote for a management proposal to approve the sale of assets.

7.22 **Cumulative Voting** - Always vote for a management proposal to adopt cumulative voting and against a management proposal to eliminate cumulative voting.

7.23 **Director Liability Provisions** – Always vote for a management proposal to limit the liability of directors or to amend director liability provisions.

7.24 **Indemnification Provisions** - Always vote for a management proposal to indemnify directors or officers or to amend provisions concerning the indemnification of directors and officers.

7.25 **Board Size** – Vote for a management proposal to set the board size unless the board will consist of more than 12 directors or if there is a proposal to give the board the authority to set the size of the board as needed without shareholder approval.

7.26 **Filling Vacancies** - Always vote for a management proposal to allow the directors to fill vacancies on the board without shareholder approval.

7.27 **Director Removal** – Always vote for a management proposal regarding the removal of directors.

7.28 **Non-Technical Charter Amendments** - Always vote for a management proposal to approve non-technical amendments to the company's certificate of incorporation.

7.29 **Non-Technical Bylaw Amendments** – Vote for a management proposal to approve non-technical amendments to the company's bylaws unless the amendment would have the effect of reducing shareholders' rights.

7.30 **Classified Board** - Always vote for a management proposal to repeal or amend a classified board and against a management proposal to adopt a classified board.

7.31 **Poison Pills** - Always vote for a management proposal to redeem a shareholder rights plan (poison pill), and against a management proposal to ratify or adopt a shareholder rights plan (poison pill).

7.32 **Special Meetings** - Always vote for a management proposal to restore shareholders' right to call a special meeting, and against a management proposal to limit or eliminate shareholders' right to call a special meeting.

7.33 **Written Consent** - Always vote for a management proposal to restore shareholders' right to act by written consent, and against a management proposal to limit or eliminate shareholders' right to act by written consent.

7.34 **Supermajority Requirement** - Always vote for a management proposal to eliminate a supermajority vote provision to approve merger or other business combinations, and against a management proposal to amend or establish a supermajority vote provision to approve merger or other business combinations.

7.35 **Supermajority Lock-In -** Always vote for a management proposal to eliminate supermajority vote requirements (lock-ins) to change certain bylaw or charter provisions, and against a management proposal to adopt or amend a supermajority lock-in if the changes would result in a complete lock-in on all of the charter and bylaw provisions.

7.36 **Non-Financial Effects of Merger** - Always vote against a management proposal to expand or clarify the authority of the board of directors to consider factors other than the interests of shareholders in assessing a takeover bid.

7.37 **Fair Price Provision** - Always vote for a management proposal to repeal a fair price provision, and against a management proposal to adopt or amend a fair price provision.

7.38 **Anti-Greenmail Provision** - Always vote for a management proposal to limit the payment of greenmail.

7.39 **Advance Notice Requirement** – Vote against a management proposal to adopt advance notice requirements if the provision requires advance notice of more than 60 days.

7.40 **State Takeover Law** – Always vote for a management proposal seeking to opt out of a state takeover statutory provision, and against a management proposal seeking to opt into a state takeover statutory provision.

7.41 **Stock Option Plans** – Vote for a management proposal to adopt, amend, or add shares to a stock option plan for employees except if:

1. The plan dilution is more than 25% of outstanding common stock.
2. The minimum equity overhang of all plans is more than 25% of outstanding common stock.
3. The plan permits pyramiding.
4. The plan allows for the repricing or replacement of underwater options.
5. The plan allows for non-qualified options to be priced at less than 90% of the fair market value on the grant date.
6. The plan has a share replenishment feature (evergreen plan) – that is, it adds a specified number or percentage of outstanding shares for awards each year.
7. The plan allows for multiple awards and does not set a limit on non-option awards.
8. The plan permits time-lapsing restricted stock awards.
9. The company's equity overhang exceeds the 75th percentile of its peer group.
10. The plan contains change-in-control provisions.
11. The plan administrator may provide loans to exercise awards.
12. The plan administrator may accelerate the vesting of outstanding awards.
13. The plan administrator may grant reloaded stock options.
14. The company allowed the repricing or replacement of underwater options in past fiscal year.
15. The options granted to the top 5 executives exceed 15% of options granted in the past fiscal year.

7.42 **Limit Annual Awards** – Always vote for a management proposal to limit per-employee annual option awards.

7.43 **Extend term of Stock Option Plan** – Always vote against a management proposal to extend the term of a stock option plan for employees.

7.44 **Director Stock Option Plan** - Vote for a management proposal to adopt or amend a stock option plan for non-employee directors except if:

1. The plan allows non-qualified options to be priced at less than 95% of the fair market value.
2. The plan dilution is more than 5% of the outstanding common equity.
3. The minimum potential dilution of all plans is more than 20% of the outstanding common equity.
4. The plan or amendment authorizes 5 or more types of awards.
5. The plan or amendment allows for non-formula discretionary awards.
6. The amendment increases the size of the option awards.

Always vote against a management proposal to add shares to a stock option plan for non-employee directors.

7.45 **Employee Stock Purchase Plan** - Vote for a management proposal to adopt, amend, or add shares to an employee stock purchase plan except if:

1. The plan, amendment, or additional shares allow employees to purchase stock at less than 85% of the fair market value.
2. The plan or additional shares cause dilution of more than 25% of the outstanding common equity.
3. The minimum potential dilution of all plans, including the proposal, is more than 25% of the outstanding common equity.

7.46 **Stock Award Plan** – Vote against a management proposal to adopt, amend, or add shares to a stock award plan for executives, unless the company beat the return of the S&P 500 and an appropriate peer group.

7.47 **Director Stock Award Plan** - Vote against a management proposal to adopt, amend, or add shares to a stock award plan for non-employee directors, unless the company beat the return of the S&P 500 and an appropriate peer group.

7.48 **Annual Bonus Plan** – Vote against a management proposal to approve an annual bonus plan unless the company beat the return of the S&P 500 and an appropriate peer group.

7.49 **Option/Stock Awards** - Vote against a management proposal to grant a one-time option/stock award unless the company beat the return of the S&P 500 and an appropriate peer group.

7.50 **Long Term Bonus Plan** - Vote against a management proposal to approve or amend a long-term bonus plan unless the company beat the return of the S&P 500 and an appropriate peer group.

7.51 **Employment Agreements** – Always vote for a management proposal to approve an employment agreement or contract.

7.52 **Deferred Compensation Plan Amendments** – Always vote for a management proposal to amend a deferred compensation plan.

7.53 **Exchange Underwater Options** – Always vote against a management proposal to exchange underwater options (options with a per-share exercise price that exceeds the underlying stock's current market price).

7.54 **Amend Annual Bonus Plan** – Always vote for a management proposal to amend an annual bonus plan.

7.55 **Reapprove Option/Bonus Plan for OBRA** - Always vote for a management proposal to reapprove a stock option plan or bonus plan for purposes of OBRA.

7.56 **Executive Bonus Plans –** Vote for if the company's stock performance in the last calendar year has exceeded the returns of both the Standard & Poors 500 Index and an appropriate peer group index.

SHAREHOLDER PROPOSALS

7.57 **Shareholder Approval of Auditors –** Always vote for a shareholder proposal calling for stockholder ratification of auditors.

7.58 **Auditors Must Attend Annual Meeting** - Always vote for a shareholder proposal calling for the auditors to attend the annual meeting.

7.59 **Limit Consulting by Auditors** - Always vote for a shareholder proposal calling for limiting consulting by auditors.

7.60 **Rotate Auditors** - Always vote for a shareholder proposal calling for the rotation of auditors.

7.61 **Restore Preemptive Rights** - Always vote for a shareholder proposal to restore preemptive rights.

7.62 **Study Sale or Spin-Off** - Always vote for a shareholder proposal asking the company to study sales, spin-offs or other strategic alternatives.

7.63 **Adopt Confidential Voting** - Always vote for a shareholder proposal asking the board to adopt confidential voting and independent tabulation of the proxy ballots.

7.64 **Counting Shareholder Votes** - Always vote for a shareholder proposal asking the company to refrain from counting abstentions and broker non-votes in vote tabulations.

7.65 **No Discretionary Voting** - Always vote for a shareholder proposal to eliminate the company's discretion to vote unmarked proxy ballots.

7.66 **Equal Access to the Proxy** - Always vote for a shareholder proposal to provide equal access to the proxy materials for shareholders.

7.67 **Improve Meeting Reports** – Always vote against a shareholder proposal to improve annual meeting reports.

7.68 **Change Annual Meeting Location** – Always vote against a shareholder proposal to change the annual meeting date.

7.69 **Board Inclusiveness** – Always abstain from voting for a shareholder proposal asking the board to include more women and minorities as directors.

7.70 **Increase Board Independence** - Always vote for a shareholder proposal seeking to increase board independence.

7.71 **Director Tenure/Retirement Age** – Always abstain from voting for a shareholder proposal seeking to limit the period of time a director can serve by establishing a retirement or tenure policy.

7.72 **Minimum Stock Ownership by Directors** – Vote for a shareholder proposal to require minimum stock ownership by directors unless the minimum level of ownership required is more than 500 shares.

7.73 **Allow Union/Employee Representatives on the Board** - Always vote against a shareholder proposal that seeks to provide for union or employee representatives on the board of directors.

7.74 **Directors' Role in Corporate Strategy** - Always vote for a shareholder proposal seeking to increase disclosure regarding the board's role in the development and monitoring of the company's long-term strategic plan.

7.75 **Increase Nominating Committee Independence** - Always vote for a shareholder proposal to increase the independence of the nominating committee.

7.76 **Create Nominating Committee** - Always vote for a shareholder proposal to create a nominating committee of the board.

7.77 **Create Shareholder Committee** – Always abstain from voting for a shareholder proposal urging the creation of a shareholder committee.

7.78 **Independent Board Chairman** - Always vote for a shareholder proposal asking that the chairman of the board of directors be chosen from among the ranks of the non-employee directors.

7.79 **Lead Director** - Always vote for a shareholder proposal asking that a lead director be chosen from among the ranks of non-employee directors.

7.80 **Adopt Cumulative Voting** - Always vote for a shareholder proposal calling for the adoption of cumulative voting.

7.81 **Nominee Statement in Proxy** – Always abstain from voting for a shareholder proposal to require directors to place a statement of candidacy in the proxy statement.

7.82 **Double Board Nominees** - Always abstain from voting for a shareholder proposal to nominate two director candidates for each open board seat.

7.83 **Director Liability** - Always abstain from voting for a shareholder proposal to make directors liable for acts or omissions that constitute a breach of fiduciary care resulting from a director's gross negligence and/or reckless or willful neglect.

7.84 **Repeal Classified Board** – Always vote for a shareholder proposal to repeal a classified board.

7.85 **Redeem or vote on Poison Pill** - Always vote for a shareholder proposal asking the board to redeem or to allow shareholders to vote on a shareholder rights plan (poison pill).

7.86 **Eliminate or Reduce Supermajority Provision** - Always vote for a shareholder proposal that seeks to eliminate supermajority provisions.

7.87 **Repeal Fair Price Provision** - Always vote for a shareholder proposal that seeks to repeal fair price provisions.

7.88 **Restore Right to Call a Special Meeting** - Always vote for a shareholder proposal to restore shareholders' right to call a special meeting.

7.89 **Restore Right to Act by Written Consent** - Always vote for a shareholder proposal to restore shareholders' right to act by written consent.

7.90 **Prohibit Targeted Share Placement** - Always vote for a shareholder proposal to limit the board's discretion to issue targeted share placements or to require shareholder approval before such block placements can be made.

7.91 **Opt Out of State Takeover Statute** - Always abstain from voting for a shareholder proposal seeking to force the company to opt out of a state takeover statutory provision.

7.92 **Re-incorporation** - Always abstain from voting for a shareholder proposal to reincorporate the company in another state.

7.93 **Anti-Greenmail Provision** - Always vote for a shareholder proposal to limit greenmail payments.

7.94 **Restrict or Disclose Executive Compensation** - Always abstain from voting for a shareholder proposal to restrict or to enhance the disclosure of executive compensation.

7.95 **Restrict Director Compensation -** Always abstain from voting for a shareholder proposal to restrict director compensation.

7.96 **Cap Executive Pay** - Always abstain from voting for a shareholder proposal to cap executive pay.

7.97 **Pay Directors in Stock** – Vote against if the resolution would require directors to receive their entire compensation in the form of company stock.

7.98 **Approve Executive Compensation** - Always abstain from voting for a shareholder proposal calling for shareholder votes on executive pay.

7.99 **Restrict Director Pensions** - Always vote for a shareholder proposal calling for the termination of director retirement plans.

7.100 **Review/Report on/Link Executive Pay to Social Performance** - Always abstain from voting for a shareholder proposal that asks management to review, report on and/or link executive compensation to non-financial criteria, particularly social criteria.

7.101 **No Repricing of Underwater Options** - Always vote for a shareholder proposal seeking shareholder approval to reprice or replace underwater stock options.

7.102 **Golden Parachutes** - Always vote for a shareholder proposal calling for a ban or shareholder vote on future golden parachutes.

7.103 **Award Performance-Based Stock Options** - Always vote for a shareholder proposal seeking to award performance-based stock options.

7.104 **Expense Stock Options -** Always vote for a shareholder proposal establishing a policy of expensing the costs of all future stock options issued by the company in the company's annual income statement.

7.105 **Pension Fund Surplus -** Always vote for a shareholder proposal that requests future executive compensation be determined without regard to any pension fund income.

7.106 **Create Compensation Committee -** Always abstain from voting for a shareholder proposal to create a compensation committee.

7.107 **Hire Independent Compensation Consultant** - Always abstain from voting for a shareholder proposal to require that the compensation committee hire its own independent compensation consultants – separate from the compensation consultants working with corporate management – to assist with executive compensation issues.

7.108 **Committee Independence** – Always vote for a shareholder proposal to increase the independence of the compensation, audit, or key committees.

7.109 **Social Issues** – Abstain from voting on all social issues. The General Manager shall present exceptional issues to the Board.

7.110 **General Manager Authority -** The Board instructs the General Manager to use his or her discretion as to whether or not proxy issues may be voted by Staff for the purpose of protecting the Pension System's economic interest, when such issues are not covered in the existing guidelines or timing does not allow the issue to be brought to the Board. The General Manager will report to the Board on all votes cast in this manner.

In researching potentially significant proxy issues, the General Manager is also instructed to obtain and consider recommendations from the applicable investment advisor(s) on proxy issues which may have an economic impact on the corporation or on the value of its stock.

As to proxy matters for non-U.S. securities, the Board delegates to the international equity advisors the authority to vote the Board's proxies in accordance with the guidelines set forth above for the General Manager on U.S. proxy matters.

7.111 **Report on Climate Change Issues -** Always vote for shareholder proposals that request management to "Report on Climate Change" issues.

HISTORY

7.112 Adopted: June 20, 1985; Revised: 04/27/89, 04/13/95, 06/05/03, 09/06/07

REVIEW

7.113 This policy shall be revised as necessary.

8.0 - MANAGER SELECTION AND RETENTION

BACKGROUND

8.1 Consistent with its fiduciary responsibilities, the Board of Fire and Police Pension Commissioners has developed a Manager Retention Policy to further the goal of generating superior long-term investment performance. This Policy outlines the responsibilities and activities of the Board and Staff with respect to monitoring and evaluating managers after being retained by the Board. The Board constantly reviews the performance that the managers are doing. The goal of the Board is to implement a process that removes managers with no value adding capabilities and retains managers that do add value.

As procedures have evolved at the Department of Fire and Police Pensions, the major responsibility for monitoring and evaluating managers has been assigned to Staff and employed consultants, with the Board assuming overall responsibility for setting investment policy and deciding which managers will be hired or retained. Evaluating the performance of a diverse group of money managers is an important part of carrying out the Board's investment responsibilities. The Manager Retention Policy, consistently applied, will assist the Board in making informed judgments regarding the capabilities of managers hired by the Fund, and in its decisions concerning retention and termination of money managers.

The policy provides a comprehensive framework for the analysis of manager performance promotes a long-term attitude towards performance evaluation and serves to communicate investment objectives between the Board, its managers and its Staff.

MANAGER SELECTION CRITERIA

8.2 The selection of investment managers is accomplished in accordance with all applicable Local, State, and Federal laws and regulations. Each investment manger, consultant, and custodian functions under a formal contract that delineates responsibilities and appropriate performance expectations.

Criteria will be established for each manager search undertaken by the Board and will be tailored to the Board's needs in such a search. In general, eligible managers will possess attributes including, but not limited to, the following criteria:

1. The firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by the Board.

2. The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and in retaining clients.

3. The firm must have an asset base sufficient to accommodate the Board's portfolio. In general, managers should have at least $100 million of

discretionary institutional assets under management, and the Board's portfolio should make up no more than 20% of the firm's total asset base at the time of hiring. Exceptions shall be made on a case-by-case basis.

4. The firm must demonstrate adherence to the investment style sought by the Board and adherence to the firm's stated investment discipline.

5. The firm's fees should be competitive with industry standards for the product category.

6. The firm must comply with the "Duties of the Investment Managers" outlined herein and conform to CFA Institute (formerly AIMR) standards for performance reporting.

QUALITATIVE/QUANTITATIVE FACTORS TO MONITOR

8.3 The Fund's manager selection process relies heavily upon qualitative analysis in identifying the parts of a manager's organization and investment process that are necessary for superior long-term investment performance. At the time a manager is hired by the Board, the rationale for retaining the manager is outlined and the manager's role in the Board's investment program is clearly established. The review and monitoring process is intended to keep the Board and Staff fully informed of qualitative attributes in a manager's organization.

Quantitative performance evaluation relates to those aspects of a money manager's operation that can be analyzed relative to measurable targets (Appendix 1). Managers hired by the Fund will be measured over a period of time relevant to their appropriate benchmark, style and peer universe. Managers will be measured net of fees, custody expenses and other costs. Performance attribution will include the manager's style (as reflected by the benchmark), manager skill, sector selection, timing and trading.

WATCH LIST POLICY

8.4 Managers will be reviewed annually at the end of the calendar year. Managers will be placed on the watch list when their performance is below the median of their peer group, (provided by the current performance consultant) for a year, or if there is no comparable peer group comparison, below the expected return for that manager classification. A manager may be placed on the watch list at this time. Significant portfolio management personnel or manager style changes are also cause to be placed on the list immediately or to have the contract ended at any time.

When a manager is placed on the list, Staff will speak to the manager and send it a letter (Appendix 2) as soon as possible to discuss the Board's concern at which time that manager will sign and return that letter acknowledging their watch list notification by this Board. A manager will remain on the list until short and long term performance improves enough to warrant removal or the contract is terminated which can occur at any time. The Board will have the manager in for a review at one of the scheduled Board meetings during the first year the manager is on the list. After the Board has met with a Manager for their Watch Status review, further meetings are at the Board's discretion. Performance of the managers on the list will be evaluated annually, with emphasis on the three and five year returns, until the Board removes the manager from the list or ends the contract.

The Board, Staff and the performance consultant will monitor the manager's quarterly performance. Consultants will provide information on the manager's performance in relationship to other managers within the same style and universe.

Upon the decision to terminate, Staff will implement its termination checklist. All outstanding issues with the custodian bank, brokers, consultants, or other parties and the investment manager are to be resolved before the final payment to the manager.

Staff will have the responsibility to manage the details of terminating an investment manager.

The following list **specifies** the factors that the Board and Staff will analyze before making a decision.

- Evaluate the manager's performance relative to the specified benchmark and other relevant benchmarks.
- Evaluate the manager's performance ranking compared to managers of the same style. Active managers are expected to generate returns better than their benchmarks and their peers. We look for consistency of returns as well as the degree of under-performance. Rolling three and five year returns are more meaningful than shorter periods of time.
- Compare performance of the Fund's portfolio to the manager's other accounts.
- Review hiring objectives. Managers are hired for specific reasons: a style or strategy that is expected to add value and contribute to diversification.
- Evaluate personnel. Review the people who establish investment strategy and manage the portfolio.
- Review any changes in ownership. A change in ownership may or may not presage meaningful changes in the organization, key personnel, investment strategy and the decision making process, however any ownership change needs to be reviewed.
- Review the loss of clients and the addition of new business. Losses may signal problems at the firm we haven't noticed yet, while adding new clients too quickly may overload the manager's resources or force a change in investment approach.

REAL ESTATE SEPARATE ACCOUNT MANAGERS

8.5 Real Estate managers will be reviewed on the same basis as other managers. However, due to the longer life and the illiquid nature of real estate investments, a formal review of the performance of the real estate separate account managers will take place in conjunction with the expiration of the contracts with the manager. Interim performance reviews may be conducted as warranted after the completion of the annual appraisals.

The benchmark for the separate account real estate managers is the National Council of Real Estate Investment Fiduciaries (NCREIF) index plus one percent.

ALTERNATIVE INVESTMENTS

8.6 The Fund's alternative investment portfolio is made up of individual partnerships that generally last from ten to 12 years, with provisions for possible extensions beyond the original term. The interim performance of a partnership investment (anything prior to the termination of a partnership) may not always be indicative of the final results for a particular partnership. The interim valuations of a partnership's underlying investments (most of which are privately-held companies) reflect a high degree of subjectivity. As a partnership's underlying investments are disposed of, either at a gain or at a loss, the interim performance begins to become more indicative of the partnership's final performance level.

The ultimate measure of a partnership's performance is calculated from the total amount of cash that is contributed (paid-in) to the partnership compared to the timing and amount of cash returned to the Fund. The most common measurement tool is calculating a net compound annual internal rate of return (Net IRR) which is a discounted cash flow analysis of the cash flows to and from the partnership over the life of the partnership.

The Fund expects our alternative investment portfolio to provide a higher return than publicly-traded equities over the long term (10-12 years). The Fund's return benchmark for our alternatives is the S&P 500 plus 4 percent.

HISTORY

8.7 Adopted: May 3, 2001; Revised 09/18/03; 05/03/07, 08/20/09

REVIEW

8.8 This policy shall be revised as necessary.

APPENDIX 1 - PERFORMANCE BENCHMARKS

S&P 500: The Standard & Poor's 500 Index covers 500 large cap stocks representing approximately 75% of the total U.S. equity market capitalization. Companies included in the index have market capitalizations of $3 billion or greater. A company's weight in the index is proportional to its market value. This index is used as a benchmark for large cap domestic equity managers.

Russell 3000: A Frank Russell Company index consisting of the 3,000 largest U.S. companies as measured by total market capitalization, representing approximately 98% of the investable U.S. equity market. The largest company in the index has a market cap of approximately $70 billion and the smallest company is roughly $20 million. The Russell 3000 Index is the overall domestic equity benchmark.

Russell 2000: An index consisting of the 2,000 smallest securities contained in the Russell 3000, representing approximately 8% of the investable U.S. equity market. The average market capitalization of companies in the index is approximately $580 million. This index is used as a benchmark for small cap domestic equity managers.

Russell 1000 Growth: An index compiled from the stocks of the 1,000 largest companies in the Russell 3000 which reflect a greater than average growth orientation. Stocks in the index tend to exhibit higher price-to-book and price-earnings rations, and other growth characteristics. The index contains stocks from approximately 530 companies. It is used as a benchmark for large cap domestic equity growth managers.

Russell 1000 Value: An index compiled from the stocks of the 1,000 largest companies in the Russell 3000 which reflect a less than average growth orientation. Stocks in the index tend to exhibit low price-to-book and price-earnings ratios, and other value characteristics. The index contains stocks from approximately 720 companies (Note: there is roughly a 30% overlap of stocks in both the 1000 Growth and 1000 Value). The index is used as a benchmark for large cap domestic equity value managers.

MSCI ACWI: The Morgan Stanley Capital International All Country Word Free ex U.S. Index. An index composed of securities from 48 developed and emerging market countries of the Americas, Europe, the Middle East, Asia and the Pacific, excluding the United States. The index does not include securities form markets closed to foreign investment or those securities in open markets that are not purchasable by foreigners. The index is used as a benchmark for international equity managers.

MSCI Emerging Markets Free: The Morgan Stanley Capital Emerging Markets Free Index is composed of securities from companies of 26 emerging market countries in Europe, Latin America, Asia and the Pacific. The index does not include securities from markets closed to foreign investment or those securities in open markets that are not purchasable by foreigners. The index is used as a benchmark for emerging markets managers.

Barclays Government/Credit Index: The Barclays U.S. Government/Credit Long Index is a broad market index similar in composition to the Barclays Government/Credit. The Barclays Long index is composed of those bonds within the Government/Credit index that have maturities of 10 years or greater. This index is used as a benchmark for the fixed income long duration manager.

Barclays U.S. Universal Bond Index: The index covers most of the different sectors in the U.S. fixed income market including the high yield sector. The index is used as a benchmark for our fixed income allocation.

Barclays U.S. Aggregate Index: The index covers U.S. dollar denominated debt including treasury and various corporate bonds. This index is used as a benchmark for our fixed income core and opportunistic managers.

CS Global High Yield Index: The Credit Suisse High Yield Index is comprised of bonds rated B or lower with at least $75 million outstanding. It is used as a benchmark for high yield fixed income managers.

Barclays U.S. Government Inflation-Linked Bond Index: The index measures the performance of the U.S. Treasury Inflation Protected Securities (TIPS) market. Inflation-linked bond indices include only capital indexed bonds with a remaining maturity of one year or more.

NCREIF: The National Council of Real Estate Investment Fiduciaries Property Index is comprised of real properties of all types located throughout the United States and owned by institutional investors. The Property Index includes properties that are encumbered with mortgages (leverage); the NCREIF Classic Property Index includes only properties without leverage. (Note: The Pension Fund used the Classic Property Index as a benchmark for real estate managers through June 30, 2001. The NCREIF Property Index has been used since July 1, 2001.)

Dow Jones Wilshire Real Estate Securities Index: The index includes Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). A company must have a minimum market capitalization of $200 million at the time of its inclusion and at least 75% of the company's total revenue must be derived from ownership and operation of real estate assets.

APPENDIX 2 - SAMPLE LETTER - WATCH LIST

Dear:

Notice of Placement on Watch List

This is to advise you that, in accordance with the provisions of the Manager Retention Policy as adopted by the Board of Pension Commissioners, XYZ Asset Management, Inc. has been formally placed on a Watch status. Firms are placed on a Watch status when their investment performance, changes in their investment style or changes within their organization cause the Board concern.

The purpose of the Manager Retention Policy is to help ensure the highest levels of performance by the Pension Fund's investment managers. The Policy requires regular evaluations of manager performance against objective standards, and the identification of those managers whose performance indicates their value-adding capabilities have deteriorated. A copy of the Manager Retention Policy is enclosed, for your reference.

Your firm has been placed on our watch list following the end of the September 30, 2002 quarter. The portfolio returned 5.61% for the year ending September 30, 2002, which is less than the benchmark of the Solomon Broad Investment Grade Index of 8.38% and places XYZ Asset Management in the 83rd percentile in comparison with a peer group of similar fixed income managers.

Department of Fire and Police Pensions' staff will be contacting you to discuss specifics of your performance and your plans for improvement. Staff will also schedule you for a presentation of your plans for improvement to the full Board, at the earliest mutually convenient opportunity.

Should the Board be dissatisfied with your portfolio's performance, changes in your investment style, or changes within your organization, the Board may, in the best interests of the Pension Fund, vote to terminate your contract immediately. I wish to stress that the Board retains the right to terminate a manager's contract at any time during the contract period or allow the contract to expire, including while a firm is on Watch status.

Should there be any questions, please do not hesitate to contact Mr. Tom Lopez, Chief Investment Officer, Department of Pensions, at (213) 978-4464.

Very truly yours,

____________________, President
Board of Fire and Police Pension Commissioners

Attachment

Please sign and return a copy of this letter as acknowledgement of its receipt.

By: ____

Name:
Title:

Date: ____

9.0 - MARKETING CESSATION

PURPOSE

9.1 The purpose of this policy is to prevent, and avoid the appearance of, undue influence on the Board or any of its members in the award of all contracts.

Notification of this policy will be sent to all firms considered by Staff or the Consultant to be interview candidates. From the time the candidates are notified until the search ends, all direct marketing contact with firms that meet the search criteria will be limited to meetings with the Consultant, information sent to the Consultant or Department, questions about the search directed to the Staff or Consultant, one meeting at the Department's office with Staff and any site visits. The Board members, Department Staff or Consultant will accept no entertainment or gifts of any kind from any firm qualifying for the search. This policy does not prohibit contact with potential interview candidates at group social events, educational seminars, conferences, or charitable events so long as there is no direct marketing.

During the three months prior to the renewal of a contract with a firm currently under contract, the Board Members, Department Staff and Consultant will accept no entertainment or gifts from that firm until the contract has been renewed or terminated by the Board. Firms who currently have contracts with the Los Angeles Fire & Police Pension System are allowed to continue contact related to the existing contract with Staff and the Consultant.

Firms that are invited to interview with the Board, at the time of the interview, will be required to submit a Contact Statement. This Contact Statement shall list all contacts with Board members and Consultants during the three month period prior to the interview or during the search period, whichever is longer.[1]

The Los Angeles Municipal Code Section 49.5.17 (Commissioner Participation in Contracting Process) states:

A. Except as provided below, no member of a Board or Commission shall participate in or otherwise be involved in the development, review, evaluation, negotiation and recommendation process of bids, proposals or any other submittals or requests for the award of a contract, contract amendment, or change order involving that Board, Commission, Office or Department.

B. This Section does not preclude a Board or Commission, acting as a body, from reviewing staff recommendations when considering award of a contract, contract amendment or change order; providing direction to the general manager on contract requirements and negotiations; or considering proposals or other requests submitted for the award of a contract, contract amendment or change order. Nor does this

[1]See section 1.18.G.2.e of the Ethics Policy, also referred to as the Contractor Disclosure Policy, which can be found in the Board Operating Policies and Procedures.

Section preclude the efforts of individual members in reviewing documents and other information provided by or available from staff when preparing for the meetings of the full Board or Commission or committee at which the matter will be considered.

Any violation of this policy shall result in automatic disqualification of the bidding firm.

This policy is also in the Board Operating Policies and Procedures.

HISTORY

9.2 Adopted: 02/07/02; Revised: 01/04/07, 09/03/09 and 03/03/11

REVIEW

9.3 This policy shall be reviewed by the Board annually in February.

10.0 - SECURITIES LITIGATION

PURPOSE

10.1 The Board of Los Angeles Fire and Police Pension Commissioners (the “Board”) recognizes its obligation to make reasonable efforts to preserve and protect the assets of the Los Angeles Fire and Police Pension Plan (the “Plan”). The Board acknowledges that securities claims are as an asset of the Plan and that the pursuit of litigation may become necessary or appropriate in order to maximize the Plan’s recovery of assets.

The purpose of the Board’s securities litigation policy is to establish procedures and guidelines for monitoring and participating in both securities class actions and other securities related litigation when appropriate to protect the Plan’s assets.

CLAIMS EVALUATION PROCESS AND PARTICIPATION AS LEAD PLAINTIFF

10.2 In order to fully and objectively evaluate the Plan’s position in connection with any potential claim, the Board has developed the following process:

A. Unless the Plan incurs potential damages (loss net of gain) in excess of One Million Dollars ($1,000,000.00) in connection with any investment, the Plan shall proceed as a member of the class action or, if no class action has been filed, the Board shall determine whether or not to proceed with an independent action based upon review and recommendation by staff, the City Attorney’s Office and outside counsel.

B. If the potential damages exceed One Million Dollars ($1,000,000.00), the Board shall determine whether or not the Plan should seek lead plaintiff status, pursue an independent action, or remain a member of the class based upon review and recommendation by staff, the City Attorney’s Office and outside counsel.

C. When making a determination as to whether or not a specific loss gives rise to a litigation claim, the Board shall consider an estimate of the magnitude of the potential damages incurred by the Plan, the potential recovery that may be obtained if such claim is pursued, and the merits of such claim. The Board shall consider and determine if it is in the Plan’s best interest to pursue lead plaintiff status or proceed with individual litigation. In determining whether to seek lead plaintiff status, the factors to be considered shall include whether or not the Plan’s participation or action will increase net monetary value of settlement; the potential effect on the value of the Plan’s investment portfolio; and whether the Plan’s active participation will add value to the potential recovery.

SELECTION OF SECURITIES LITIGATION COUNSEL

10.3 The Board shall use an RFQ process to select one or more law firms to monitor and review the Plan's investment portfolio and the filing of class actions. Any law firms selected for such monitoring and review shall require the approval of the City Attorney. The selected law firms shall make recommendations to the Board regarding whether or not potential or actual securities litigation cases are meritorious and worthy of further investigation, including seeking lead plaintiff status. The monitoring and review service shall be performed at no cost to the Plan.

The Board shall use an RFQ process to select one or more law firms to advise and/or represent the Plan in connection with securities litigation cases. Any law firms selected for such advice and/or representation shall require the approval of the City Attorney. The selected law firms shall advise the Plan regarding whether or not the Plan should seek lead plaintiff status or recovery on a joint or individual basis in an action that is not a class action and represent the Plan in connection with such cases. Any law firm that has been selected to provide the monitoring and review service may participate in the RFQ process for the selection of law firms to advise and represent the Plan.

MONITORING ACTIONS

10.4 The City Attorney in conjunction with outside counsel shall provide on going status reports to the Board on all securities litigation cases in which the Plan is a class member or in which the Plan has filed an independent action. These reports shall include a summary of all major developments in connection with such cases.

HISTORY

10.5 Adopted: August 21, 2003; Revised 10/01/09.

REVIEW

10.6 This policy shall be reviewed bi-annually in September.

11.0 – SUDAN POLICY

GENERAL POLICY

11.1 Investment managers should refrain from purchasing securities where the company has been identified as doing business in Sudan's energy sector or with the government of Sudan, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

The list of companies identified by the Regents of the University of California as having business operations in Sudan will constitute the Board's list of companies subject to its Sudan Policy.

INVESTMENTS SUBJECT TO DIVESTMENT

11.2 The Sudan Policy shall apply only to actively managed separate accounts in the public equity asset classes. The Sudan Policy shall not apply to index funds, commingled funds, hedge funds or assets held in the real estate or alternative investment program.

HISTORY

11.3 Adopted: March 1, 2007; Revised: May 17, 2007, April 15, 2010

REVIEW

11.4 This Policy shall be reviewed by the Board every three years in April.

12.0 – DUTIES OF RESPONSIBLE PARTIES

DUTIES OF THE BOARD OR ITS DESIGNATE(S)

12.1 The Board has the responsibility for the administration of the Fund for the benefit of plan participants, although it is not the intent of the Board to become involved in the day-to-day investment decisions. The Board or its designee(s) will adhere to the following procedures in the management of the Board's assets:

1. The Board develops and approves policies for the execution of the Board's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff will be responsible for the implementation and administration of these decisions.

2. The Board shall review investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks, as well as peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian, investment managers, etc.

3. The Board may retain investment consultants to provide such services as conducting performance reviews, asset allocation, manager reviews, and investment research.

4. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on the following areas:

    a. Manager compliance to the Policy guidelines.

    b. Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping the Board advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.

    c. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.

5. The Board shall expect Staff to administer the Fund's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs, and other administrative costs chargeable to the Board.

6. The Board shall be responsible for selecting qualified investment managers, consultants, and custodian.

7. Voting of proxies in stocks held by the System will be done according to Board policy.

8. The Board shall be responsible for participating in Council of Institutional Investors (CII) elections. Each commissioner shall submit their recommendations in advance of CII's business meeting to the Board President or, if the Board President will not be attending CII's business meeting, to an alternate commissioner who shall be attending the meeting or, if no commissioner will be attending the meeting, to Staff. The Board President and/or any commissioner(s) attending CII's business meeting shall review each of the commissioners' recommendations and consult with one another before the Board President or, if the Board President is not in attendance at CII's business meeting, an alternate commissioner or, if no commissioner is in attendance at the meeting, Staff, represents LAFPP and casts its vote.

DUTIES OF THE STAFF

12.2 The Staff provides analysis and recommendations to the Board on a wide variety of investments and investment related matters. Additionally, Staff oversees and directs the implementation of Board policies and manages the Fund on a day-to-day basis. Furthermore, Staff's responsibilities include the following details:

1. Invests the Fund's cash without requiring Board's permission as set forth elsewhere in the Board's Investment Guidelines.

2. Monitors investment managers for adherence to appropriate policies and guidelines.

3. Evaluates and manages the relationships with brokers, managers, and custodian(s) to the Fund to ensure that they are providing all of the necessary assistance to Board and to Staff.

4. Conducts the manager search process, as approved by the Board, with assistance from consultants as needed.

5. The Staff will mange Portfolio restructuring resulting from portfolio rebalancing or manager terminations with the assistance of consultants and mangers, as needed.

6. The Staff and its designee(s) shall be responsible for organizing and/or participating in any special research for the Board.

7. The Staff shall ensure that Investment Managers conform to the terms of their contracts and that performance-monitoring systems are sufficient to provide the Board with the most timely, accurate, and useful information as possible.

8. The Staff shall advise and keep the Board apprised of any other events of investment significance.

9. Implements/Administers policies made by the Board.

DUTIES OF THE INVESTMENT MANAGERS

12.3 The Investment Managers shall perform the following duties:

1. Contract by written agreement with the Board to invest within approved guidelines.

2. Provide the Board with proof of liability and fiduciary insurance coverage.

3. Be an SEC-Registered Investment Advisor under the 1940 Act or an authorized bank or trust, and be recognized as providing demonstrated expertise during a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.

4. Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.

5. Obtain best execution for all transactions for the benefit of the System with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the System, and, where appropriate, facilitate the recapture of commissions for the System's benefit.

6. Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian and the Board's Staff.

7. Maintain frequent and open communication with the Board and Staff on all significant matters pertaining to the System, including, but not limited to, the following issues:

    a. Major changes in the Investment Manager's investment outlook, investment strategy, and portfolio structure;

    b. Significant changes in ownership, organizational structure, financial condition, or senior personnel;

    c. Any changes in the Portfolio Manager or other personnel assigned to the System;

    d. Each significant client that terminates or separates voluntarily its relationship with the Investment Manager, within 30 days of such termination/separation;

    e. All pertinent issues that the Investment Manager deems to be of significant interest or material importance; and,

f. Meet with the Board and/or Staff on an as-needed basis.

DUTIES OF THE MASTER CUSTODIAN

12.4 The Master Custodian shall be responsible to the Board for the following duties:

1. Provide complete global custody and depository services for the designated accounts.

2. Manage a Short Term Investment Fund (STIF) for investment of any un-invested cash, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.

3. Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers.

4. Collect all income and realized principal realizable, and properly report it on the periodic statements.

5. Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions. The statements should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.

6. Report situations where accurate security pricing, valuation, and accrued income are either not possible or subject to considerable uncertainty.

7. Assist the System to complete such activities as the annual audit. Transaction verification, or unique issues as required by the Board.

8. Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.

DUTIES OF THE GENERAL INVESTMENT CONSULTANT

12.5 The Investment Consultant shall be responsible for the following:

1. Review quarterly performance including performance attribution on the Board's managers and total assets, including a check on guideline compliance and adherence to investment style and discipline.

2. Make recommendations for Board presentation regarding investment policy and strategic asset allocation.

3. Assist the Board in the selection of qualified investment managers and in the review of existing managers, including monitoring changes in personnel, ownership and the investment process.

4. Assist the Board in the selection of a qualified custodian if necessary.

5. Provide topical research and education on investment subjects as requested by the Board or Staff.

6. Communicating information that concerns the Board.

HISTORY

12.6 Adopted: May 3, 2007; Revised: 03/19/09

13.0 – ADDRESSING SOCIAL, POLITICAL, AND HUMAN RIGHTS ISSUES

PURPOSE

13.1 This policy addresses the financial and administrative risks that the LAFPP Board may face if one of the companies it has invested in has made corporate decisions that cause “substantial social injury”. It defines that term and describes what the LAFPP Board can do about it and how to act quickly.

THE RISK: BACKGROUND

13.2 The LAFPP Board is made up of lay volunteers and elected employee and retiree representatives who are the sole protectors of the funds that provide retirement money for current and future safety employees of the City of Los Angeles. Board members all serve in the City of Los Angeles — an international city that is deeply concerned with world-wide political, social and human rights issues. Some of those issues, like the Sudan/Darfur genocidal strife, occur in countries where companies that LAFPP may invest in may do business, directly or indirectly.

When the Board invests System assets, they must follow the standards set for all retirement board members by California Constitution Article XVI § 17. The Constitution imposes fiduciary responsibility on the Board for investing System’s assets, requires them to exercise a high degree of care, skill, prudence and diligence, requires them to diversify investments to avoid risk, and says that their duty to LAFPP’s members comes first, before any other duty.

The Board invests for the long term in companies that they expect will ultimately attain better investment performance by (among other things) operating their businesses with high ethical, social and legal standards. However, LAFPP’s ownership interest in a company does not mean it approves — or even knows about — all of a company’s policies, products, or actions. A company’s possibly risky political and social conduct can only be taken into consideration to the extent that the conduct affects the financial health of the company, or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company’s conduct will not hurt the fund.

SUBSTANTIAL SOCIAL INJURY

13.3 What is “substantial social injury”? Answer: any specific action (including inaction) by a company that directly injures its employees, consumers, or other individuals or groups. It includes actions that violate, subvert, or frustrate the enforcement of American or international law aimed at protecting the health, safety, basic freedoms or human rights of individuals or groups. The term includes support of (i) government-endorsed genocide (as identified by the United States Department of Treasury, Office of Foreign Assets Control (OFAC)) or (ii) other human rights violations that inflict substantial injury to health, safety or freedom.

The company's action must be directly responsible for identifiable social injury to fall within this definition. Company action that creates only a chance that social injury might occur is not included. Likewise, doing business with other companies that are themselves engaged in socially injurious activities is not included except in unusual circumstances.

The LAFPP Board will examine any claim of substantial social injury on a case-by-case basis, using the best available evidence and allowing parties to the claim reasonable time to gather and present that evidence. The Board will decide whether to address these issues in a particular case, based on 1) the size of the interest that LAFPP holds in the business; and 2) how serious is the business's violation of LAFPP policies. As stated above, a company's possibly risky political and social conduct can only be taken into consideration to the extent that the conduct affects the financial health of the company, or to the extent that divestment of a prior investment (or a decision not to make a particular investment) on account of the company's conduct will not hurt the fund.

WHAT THE LAFPP BOARD CAN DO

13.4 When informed of a company's actions that violate LAFPP policies, the Board will promptly direct its investment staff to seek a change in the company's behavior, using the four steps described below, and to report on the status of progress at each subsequent Board meeting until the issue is resolved to the Board's satisfaction. Each of these steps will be undertaken promptly.

<u>First</u>, the LAFPP Board will direct its investment staff to engage, in a constructive manner, corporate management whose company's actions are reported to cause substantial social injury. All forms of engagement may be used — letter-writing, working with advocacy groups, proxy voting, etc. The most important feature is for the engagement to start right away and to request and obtain prompt replies from third parties to all questions throughout the process of engagement.

<u>Second</u>, if after reasonable efforts have been made to constructively engage management, it is still clear that the action complained of has in fact occurred and is continuing and, in the Board's opinion, the responses and remedies are insufficient or nonresponsive, the Board will direct its investment staff to tell its equity investment managers that, to the extent that suitable investment alternatives are available and that substituting them in the investment portfolio will result in no loss in portfolio return or increase in risk, the managers shall dispose of the interest (or avoid investing) in the violating company and invest in the alternative(s) until such time as the violations of this policy cease.

<u>Third</u>, the Board will direct its investment staff to advise the Board when and if the policy violation has been remedied.

<u>Fourth</u>, upon the Board's concurrence that the policy violation has been remedied, the Board will direct its investment staff to promptly inform the equity investment managers that the securities can thereafter be purchased.

HISTORY

13.5 Adopted: May 17, 2007

Los Angeles Fire & Police Pension System

14.0 – IRAN POLICY

GENERAL POLICY

14.1 Investment managers should refrain from purchasing securities where the company has been identified as doing business in Iran's energy sector or with the government of Iran, when the same investment goals concerning risk, return and diversification can be achieved through the purchase of another security.

The list of scrutinized companies identified by the Florida State Board of Administration as having activities in the Iran petroleum energy sector will constitute the Board's list of companies subject to its Iran Policy.

INVESTMENTS SUBJECT TO DIVESTMENT

14.2 The Iran Policy shall apply only to actively managed separate accounts in the public equity asset classes. The Iran Policy shall not apply to index funds, commingled funds, hedge funds or assets held in the real estate or alternative investment program.

HISTORY

14.3 Adopted: April 15, 2010

REVIEW

14.4 This Policy shall be reviewed by the Board every three years in April.