Stanislaus County Employees' Retirement Association

STATEMENT OF INVESTMENT POLICY

JULY 2011

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INTRODUCTION

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

The primary fiduciary fiscal responsibility of the Retirement Board is to ensure that the StanCERA Plan's (Plan) assets are responsibly managed in accordance with the actuarial needs of StanCERA and also with sound financial investment practices.

The standard of investment for Plan assets in making investments shall be to exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Investments are to be diversified so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

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

The Retirement Board has adopted a long term investment horizon such that the chances for, and duration of, investment losses are carefully weighed against the long term potential for appreciation of assets.

The assets of the StanCERA will be invested in a manner that provides the safeguards and diversity that a prudent investor would adhere to. All transactions undertaken on behalf of StanCERA will be in the sole interest of the members and beneficiaries, and for the exclusive purpose of providing benefits to such membership and their beneficiaries, and defraying reasonable expenses of administering the Plan.

The Investment Policy, guidelines, and objectives, which govern the investment of Plan assets, shall be developed and adopted by the Retirement Board at a regularly scheduled board meeting, at least annually, prior to December 31 of each year. Changes to the Investment Policy may be made, as necessary, at any public meeting of the Retirement Board, in compliance with the Ralph M. Brown Act, California's open meeting law.

DUTIES AND RESPONSIBILITIES

Retirement Board

The Retirement Board is responsible for developing the Investment Policy and for overseeing the investment activities of StanCERA. The Retirement Board must approve all changes to the Investment Policy before they can be implemented.

Retirement Board policy setting responsibilities include revising this Investment Policy as necessary; such as, but not limited to (1) acceptable asset classes, (2) allowable ranges of holdings by asset class as a percent of assets, and (3) definitions of acceptable securities within each asset class.

The Retirement Board (1) selects, retains and replaces investment managers, consultants and custodians, (2) controls the asset allocation within Investment Policy limits by asset class and by individual investment manager, (3) establishes investment performance expectations for total assets and for each portfolio, and (4) ensures all managers comply with this Investment Policy.

The Retirement Board, or its designee, will communicate the Investment Policy and performance expectations to the investment managers. The Retirement Board will review investment performance regularly to assure the Investment Policy is being followed and progress is being made toward achieving the objectives.

Investment Managers

The investment managers shall be responsible for determining investment strategy, implementing security selection and the timing of purchases and sales for the assets allocated to them within the Investment Policy guidelines set forth in this statement and as otherwise provided in writing by the Retirement Board.

Investment Consultant

The investment consultant will provide objective evaluation of investment performance of the StanCERA's investment managers, compliance monitoring of the manager portfolios, consulting advice and education on issues of interest to the Retirement Board. The investment consultant is expected to attend Retirement Board meetings when requested.

Custodians

The custodians hold for safekeeping all the securities included in all investment management portfolios. The custodian insures collection of interest and dividends and will issue regular detailed reports on holdings, their value, and all transactions. StanCERA's managers are responsible for providing custodial services for all assets in commingled funds. The custodian will maintain records and provide reports for all managers of StanCERA commingled funds. StanCERA staff are responsible to notify the custodian of additions, and deletions of commingled fund managers.

INVESTMENT PHILOSOPHY

The Retirement Board believes that Plan assets should be managed in a fashion that reflects the Plan's unique liabilities and funding resources, incorporating accepted investment theory and reliable, empirical evidence. Specifically, the Retirement Board has adopted the following principles:

A. That asset allocation is the key determinant of return and, therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program.
B. That diversification, both by and within asset classes, is the primary risk control element.
C. That passive fund portfolios are suitable investment strategies, especially in highly efficient markets.

STATEMENT OF OBJECTIVES

The assets of the StanCERA shall be invested in accordance with the objectives summarized below:

1. To preserve the actuarial soundness of the Plan in order to meet benefit obligations. To fully fund the Actuarial Accrued Liability including the present value of all mandatory and discretionary supplemental benefits currently being paid.

2. Maintain sufficient liquidity to meet benefits payment obligations on a timely basis.

3. To maximize return within reasonable and prudent levels of risk. However, this is secondary to fully funding the StanCERA's liability.

4. A long-term (one to two market cycles) return of at least the actuarial earnings rate of 8.0%.

5. A long-term (one to two market cycles) rate of return, net of fees, in excess of its Investment Policy benchmark, a hypothetical portfolio of index funds weighted by asset allocation targets.

The Investment Policy has been established in conjunction with a comprehensive review of both the current and projected financial requirements of the StanCERA and the expected investment returns by asset class.

While there cannot be complete assurance that these objectives will be realized, it is believed that the likelihood of their realization is reasonably high based upon this Investment Policy and historical performance of the asset classes discussed herein. The objectives have been based on a ten-year investment horizon, so that interim fluctuations should be viewed with appropriate perspective.

Relative performance benchmarks for the StanCERA's investment managers are set forth in the Control Procedures section of this document.

STATEMENT OF INVESTMENT POLICY

Asset Allocation Targets and Ranges

The assets of the Plan shall be invested with a view toward the long-term in order to fulfill the obligations promised to participants as well as control future levels of funding. It shall be the policy of the StanCERA to invest in each asset class ranging between a minimum and a maximum of total assets as shown below. Recognizing the goals and objectives of the Plan, the following asset allocations are established:

Asset Class as a Percent of Total Assets
(Special Situations Fund funded at 1.5%)

Asset Class	Minimum	Target	Maximum
Large Cap U.S. Stocks	28.1%	33.1%	38.1%
Small Cap U.S. Stocks	7.0%	8.3%	9.6%
Non U.S. Stocks	17.0%	20.0%	23.0%
Fixed Income	33.4%	37.1%	40.8%
Special Situations Fund	0.0%	1.5%	3.0%

Asset Class as a Percent of Total Assets
(Special Situations Fund funded at 9.0%)

Asset Class	Minimum	Target	Maximum
Large Cap U.S. Stocks	23.6%	29.5%	35.4%
Small Cap U.S. Stocks	6.8%	8.5%	10.2%
Non U.S. Stocks	15.0%	19.0%	23.0%
Fixed Income	30.5%	34.0%	37.5%
Special Situations Fund	0.0%	9.0%	12.0%

The Retirement Board has, by formal action, adopted an asset allocation and rebalancing policy (as set forth in this document). On a quarterly basis, the Retirement Board will review results to monitor asset allocation and guideline compliance as well as total fund, asset class, and individual investment manager performance relative to their appropriate standards. Until the Special Situations Fund has been fully funded and investments begin to reach their 9% target, the other asset classes in aggregate will be prorated initially at 100% of target levels (Special Situations Fund funded at 1.5%) and subsequently at prorated levels that correspond to the current asset allocation of the Special Situations Fund.

Adherence to Investment Policy Targets and Ranges

The Retirement Board is guided by the philosophy that asset allocation is the most significant determinant of long term investment return. The asset allocation of the StanCERA will be maintained as close to the target allocations as reasonably possible. Cash additions and withdrawals shall be allocated across portfolios to bring the asset mix as close to the target allocation as possible.

Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the Investment Policy range. These divergences should be of a short-term nature. The Retirement Board, or its designee, will be responsible for ensuring that the managers keep divergences from Investment Policy as brief as possible. This may require rebalancing the assets when necessary.

Rebalancing Procedures

If the asset allocation cannot be maintained within the above Investment Policy limits through contributions and withdrawals, the Retirement Board, or its designee, shall direct the shifting of assets among investment management portfolios in accordance with the guidelines below. Such reallocations are anticipated to occur infrequently.

A designee of the Retirement Board will monitor the actual asset allocation compared to the target allocations each month, as soon as data is available, to determine if rebalancing is required. Any portfolio that is above the maximum or below the minimum will be rebalanced back towards the target value.

When a rebalance is required, withdrawals of funds from portfolios that are the most above their target allocations will be invested in the portfolios that are the most underweighted with respect to their benchmarks.

The Retirement Board will periodically review all such multiple manager holdings within asset classes. The Retirement Board will rebalance these manager holdings within asset classes back toward their targets whenever the Retirement Board perceives portfolio values have diverged significantly from their targets. Cash shall be considered as U.S. Fixed Income for rebalancing purposes. In rebalancing the portfolio, consideration will be given to market liquidity in determining the timeframe over which the rebalancing should take place in an attempt to reduce transition costs.

It is anticipated that rebalancing among asset classes and individual investment portfolios will be required infrequently except during extremely volatile market periods.

Cash Holdings

It shall be the policy of the StanCERA to be fully invested to the maximum extent possible. Any excess cash holdings in separate short term fixed income accounts should be minimized.

It is understood that the StanCERA's managers at any point in time may not be fully invested. While the StanCERA assets may be partially invested in cash equivalents, for asset allocation purposes, these funds shall be considered invested in the asset classes of the respective managers. In turn, each manager's performance will be evaluated on the total amount of assets under its direct management relative to the asset class benchmark.

Uninvested cash balances should be kept to a minimum through the prompt investment of available funds. For actively managed equity portfolios, cash and short term instruments maturing in less than 360 days shall be restricted to 10% of the market value of each portfolio except for brief periods. Exceptions are allowed when building liquidity in anticipation of a large withdrawal or by special permission from the Retirement Board.

Cash equivalent holdings are allowed in the fixed income portfolio to maintain the portfolio duration within Investment Policy limits. Cash equivalent reserves shall consist of cash instruments having quality ratings by at least one rating agency of A-1, P-1 or higher, maturing in 360 days or less. The custodian's short-term investment fund (STIF) is considered an eligible investment vehicle.

For unique situations, the Retirement Board can grant exemptions in writing from the guidelines. Should any investment manager wish to exceed the guideline limits, prior written approval by the Retirement Board will be needed. In no case can a manager intentionally exceed guideline limits without formal prior approval by the Retirement Board.

Diversification

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

Not more than 5% of the outstanding shares of any one company may be held. No single equity issue will represent more than 8% of an individual manager's portfolio as measured by market value at the time of purchase.

The maximum limit in any economic sector (as defined by the master custodian) shall not exceed the greater of three times the appropriate benchmark commitment (using the master custodian's definition) to that sector or 25% of the StanCERA portfolio's market value at the time of purchase. The Retirement Board may designate that certain concentrated strategies are exempt from these sector limitations and will be assigned customized guidelines. There may be fluctuations at the extremes of these limits due to market actions or the independent actions of active equity managers, which cause these limits to be exceeded. At the end of each quarter, all managers shall calculate the sector holdings of their portfolios. If the portfolio exceeds the sector limit, the manager shall take such action as is reasonably necessary, taking into account market conditions, to bring the account in compliance. The manager also shall notify the Retirement Administrator of the limit that was exceeded and the corrective action taken.

With the exception of securities issued or guaranteed by the U.S. Government, its Agencies, and Government Sponsored Enterprises (GSEs), or collateralized by such securities no single fixed income issue will represent more than 5% of the total portfolio as measured by market value at time of purchase. Issues shall typically have at least two market makers to ensure adequate liquidity.

Volatility

Consistent with the desire for adequate diversification, the investment policy is based on the assumption that the volatility of the combined portfolios will be similar to that of the market opportunity available to institutional investors with similar return objectives.

The volatility of each investment manager's portfolio will be compared to the volatility of appropriate market indices and peer groups.

Liquidity

Benefit payments are expected to exceed contributions for the foreseeable future. The amount and timing of withdrawals will be determined by staff. The Retirement Board, or its designee, will notify the investment managers in advance of any withdrawal orders to allow them sufficient time to build up necessary liquid reserves.

Voting of Proxies

Voting of proxy ballots shall be for the exclusive benefit of the members and beneficiaries of the StanCERA. Therefore, the investment managers shall review each proxy ballot and vote them in a manner that preserves and enhances shareholder value.

Each investment manager shall keep accurate written records of all proxy votes and, at least annually, provide a detailed report to the Retirement Board documenting all votes.

Execution of Security Trades

The Retirement Board expects the purchase and sale of securities to be made through responsible brokers in a manner designed to receive the best combination of realized prices (execution) and commission rates.

Commission Recapture Programs

The Retirement Board shall, at the Retirement Board's option, direct and monitor a commission recapture program to insure that investment managers provide the best effort to optimize use of the StanCERA's assets for the benefit of the members and beneficiaries. The Retirement Board, or its designee, will issue directed brokerage letters to the managers on an annual basis. In determining the amount to be directed, consideration should be given to the type of investment manager (i.e. small capitalization managers may not be able to direct as much as large capitalization managers), and the amount of external research a manager needs. Optimal execution of trades should be employed by each manager. The Retirement Board may periodically monitor the quality of directed trade execution. Investment Managers will utilize brokers who provide the best net cost at best execution (trade execution and commission fee) for their transactions. In no case should an investment manager direct any trades where a more favorable net price is available elsewhere.

Securities Lending

A security lending program may be implemented by the master custodian or an alternative provider as selected by the Retirement Board in the belief that it will provide additional income without incurring significant additional risk. For all securities lent, liquid financial assets of the highest quality will be held as collateral in amounts equal to 102% of the value of domestic securities lent and 105% of the value of Non U.S. securities lent, in conformity with banking regulations. Cash; U.S. Treasury Bills and Notes; A-1 or P-1 rated Commercial Paper; Bankers' Acceptances; Certificates of Deposit and other bank deposits; OECD government notes; repurchase and reverse repurchase agreements; and AAA rated non-subordinated senior debt of approved banks for reconstruction and development are acceptable collateral.

GUIDELINES FOR SECURITY HOLDINGS

Investment Guidelines

Investment managers shall not purchase securities on margin, sell short, or trade in futures contracts. An exception to this general rule shall apply to international equity and fixed income investment managers. Such investment managers shall have the ability to use futures, options, and swaps to hedge against currency and interest rate movements and as cash substitutes. Exposure to risk by use of derivatives must be consistent with the overall investment guidelines. The use of permissible derivatives by investment managers as stated above is limited to 25% of the total value of the portfolio that they are managing. Each investment manager is required to report to the Retirement Board in his quarterly and annual report the market value of derivatives exposure in the portfolio. Forward currency contracts, convertibles, warrants, and rights are not considered derivatives for this purpose. Under no circumstances will investment managers use any instruments to create financial leverage within a portfolio.

Investment managers are generally expected to be fully invested in the asset class to which they are assigned.

The use of individual stock options, puts or calls is not permitted without the prior written approval of the Retirement Board.

Non Individual and Individual Security Holdings

Direct investments in individual securities shall conform to all restrictions as set forth within these guidelines. Pooled investment vehicles, such as commingled trusts, mutual funds and other pooled asset portfolios, are acceptable investment vehicles and will be utilized when the Retirement Board finds them to be a prudent alternative to a separate account. Investment managers whose account is structured to invest in a commingled fund may only hold units in the commingled fund and minimal levels of cash equivalent investments. Where pooled investment vehicles such as commingled trusts, mutual funds and other pooled trusts are used, it is expected that the guidelines of the pooled vehicle supersede the investment guidelines specified herein.

U.S. Equity Security Holdings

All equity investments must be publicly traded on an established exchange (including NASDAQ) or registered under SEC Rule 144(a).

For the purposes of this Investment Policy, small cap stocks are defined as having market capitalizations of $2.5 billion or less. Stocks with capitalizations above $2.5 billion are included in the Large Cap U.S. Equity commitment. Market weighted capitalization of small cap stock portfolios should be no more than +/- 33% of the Russell 2000 Index.

The Small Cap Value investment manager who manages an "Emerging Manager of Managers" program composed of multiple small cap value sub-managers who complement one another.

The Small Cap Growth investment manager who manages an "Emerging Manager of Managers" program composed of multiple small cap growth sub-managers who complement one another.

In managing the Manager of Manager program, Investment Manager shall select Sub-Managers who pursue a value-added strategy to their respective benchmark through active investment management. The objective of the Investment Manager for the Investment Mandate for the Manager of Manager program is to attain the highest total return consistent with a reasonable degree of risk and in keeping with standards of prudence by investing in U.S. equity securities.

Each Sub-Manager's performance shall be measured and evaluated against a benchmark or index mutually agreed upon by Investment Manager of the Manager of Manager program and Sub-Manager.

The Investment Manager(s) of the Manager of Manager program will have full discretion to manage a separately-managed diversified equity portfolio consistent with the investment objectives outlined above and in compliance with the StanCERA Statement of Investment Policy guidelines. It should be noted that the StanCERA Statement of Investment Policy guidelines applies to the Investment Manager(s) of the Manager of Manager program as well as the Sub-Managers within that program.

Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on major exchanges including NASDAQ. Equity holdings may include American Depositary Receipts (ADRs) and equity securities of foreign companies listed on registered U.S. stock exchanges or NASDAQ. Investments will be comprised of common stocks primarily, but can also include Real Estate Investment Trusts (REITs), preferred stocks and debt securities which are convertible into common stock, or which in the opinion of the Manager have predominately common stock investment characteristics.

Equity holdings in ADRs and other foreign companies shall not exceed 20% of the portfolio, measured at market value. The securities of foreign based companies included in the S&P 500 Index are excluded for purposes of calculating the maximum percent of foreign securities held.

Upon specific Retirement Board authorization futures and options may be used as a substitute for equity securities provided that they are 100% collateralized by highly liquid, low volatility fixed income securities and therefore do not represent leveraging of the assets.

Non U.S. Equity Security Holdings

At least 80% of all non U.S. equity holdings at market value shall be highly liquid securities issued by corporations headquartered in countries included in the Morgan Stanley Capital International All Country World ex-U.S. (ACWI) Index.

The emerging market allocation may vary by 5% from the weight of emerging markets in the ACWI ex-US Index at the time of purchase. For this purpose, emerging markets are defined as securities that are not included in the MSCI World ex-US (or MSCI EAFE plus Canada) Index. Securities may be purchased and sold on exchanges in countries that are not included in the MSCI ACWI ex-US Index provided that there is a ready market for these individual issues and there are no restrictions on the transfer of funds to and from the U.S.

The maximum limit in any single country shall not exceed the greater of two times the country's weighting in the MSCI ACWI ex-US Index or 20% of the market value of a portfolio managed on behalf of StanCERA.

Managers holding non U.S. dollar denominated securities are permitted to employ currency hedging strategies, but only up to the value of the holdings in each currency. However, it is expected that the primary sources of value-added for non-U.S. investment managers will be issue and country selection, with currency management focused on limiting losses due to fluctuations in currency values. The use of permissible derivatives by investment managers to employ currency hedging strategies as stated above is limited to 25% of the total value of the portfolio that they are managing.

Fixed Income Security Holdings

Fixed income investments shall generally be marketable securities which may include, but not necessarily be limited to, U.S. Treasury, Federal Agencies and Government Sponsored Enterprises (GSEs), and corporate issues, including cumulative capital securities, REIT debt obligations, equipment trust certificates, enhanced equipment trust certificates, convertibles, and taxable municipal securities. Mortgage pass-throughs, collateralized mortgage obligations, collaterized debt obligations, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and non-dollar denominated bonds may be held.

The fixed income portfolio must have a weighted-average quality rating of A+ or better.

At least 90% of the manager's fixed income portfolio shall be invested in fixed income securities with a quality rating of investment grade by one or more nationally recognized statistical rating organizations (NRSRO), such as Moody's, Standard & Poor's, or Fitch. The fixed income manager may also purchase securities that are unrated, if deemed to be of suitable quality for the portfolio, but to no more than 5%. In the latter case, the manager shall assign an internal rating for purposes of determining compliance with quality guidelines. In cases where ratings differ among rating agencies, the manager shall use the middle of the Moody's, Standard & Poor's, and Fitch rating to determine compliance with quality guidelines, so long as all three ratings exist. If two ratings are provided, the lower (more conservative) rating shall be used. If only one rating is provided, that rating shall be used.

Should the above quality rating limit be exceeded due to either market appreciation or rating agency downgrade, prompt notification to the Retirement Board is mandated and the portfolio positions returned to compliance immediately from the time of the breach.

Up to 10% of a manager's fixed income holdings at time of purchase may be invested in securities issued under SEC Rule 144A or other private placements.

Up to 15% of a manager's fixed income holdings at time of purchase may be held in U.S. dollar-denominated or non-U.S. dollar debt securities issued by sovereign governments, their agencies and instrumentalities, by both domestic and non-domestic corporations, and by supranationals. Non-U.S. dollar fixed income holdings are restricted to issuers in countries represented in the Morgan Stanley Capital International Europe Australia Far East Index (EAFE) or Canada. Non-U.S. dollar securities must be highly liquid, actively traded, and rated single A or higher at time of purchase.

The currency exchange rate risk of non-U.S. dollar denominated securities may be hedged up to the value of the securities held in each currency.

The purchase of highly volatile mortgage backed derivative securities such as, but not limited to, interest only (IO), principal only (PO), and inverse floating rate securities, and any other derivative security of similar risk or leverage, is prohibited. Asset backed securities including categories other than mortgages may be held provided they are unleveraged, low risk and their values do not change due to the performance of any other security, index or commodity by a factor other than 1.0 (i.e., structured notes). In determining the acceptability of a derivative, duration must be easily calculated and where duration cannot be calculated, the investment is not permissible.

Futures and options can be used as a substitute for fixed income provided that they are 100% collateralized by highly liquid, low volatility fixed income securities and therefore do not represent leveraging of the assets. Futures and options as stated above are limited to 25% of the total value of the fixed income portfolio.

If any questions exist by an investment manager as to the authorization granted to purchase and/or hold a security because of its issuer, type, effective duration, or effective credit quality, the manager must consult with the Retirement Board prior to purchase of the security. In addition, no investment will be made in any newly developed instrument without the explicit consent of the Retirement Board.

The average effective duration of all fixed income holdings, reflecting all instruments including CMO and Asset-Backed Securities, must be maintained at plus or minus 35% of the Barclays Capital Aggregate Bond Index duration.

Prohibited Investments

The following securities and transactions are not authorized:

a. Letter stock and other unregistered equity securities;

b. Commodities or commodity contracts (except for unleveraged stock or bond index futures and currency futures and options);

c. Ownership of real estate in any form other than publicly traded securities (Real Estate Investment Trusts) except for land and buildings owned and operated by the StanCERA;

d. Short sales, warrants or margin transactions; or any leveraged investments;

e. Private equity or venture capital funds or partnerships

f. Natural resource properties such as oil, gas or timber.

Any financial options and futures employed must be solely for defensive and hedge strategies undertaken to preserve principal or as unleveraged positions to provide asset class exposure.

No investments shall be made for the purpose of engaging in speculative trading.

Individual Manager Guidelines

This Investment Policy serves as the primary set of guidelines to be followed by each investment manager. Where appropriate, selected managers will be provided written individual investment guidelines providing additional detail, clarification of permissible securities and investment strategies, and performance evaluation criteria.

Deviations From This Investment Policy

It is recognized that new or unique investment opportunities may become available from time to time which are not specifically addressed in this Investment Policy. As such, the Retirement Board may approve deviations from this Investment Policy, provided that the Retirement Board believes any and all deviations will enhance long term return expectations and not increase the StanCERA's exposure to investment losses.

Corporate Fraudulent Behavior Notification Guidelines

The investment manager should notify StanCERA staff immediately on any reported fraudulent behavior committed in any of their holdings. The notification should include the following information: amount of shares held, date of purchase, average purchase price, current market price, and a summary on why the company was purchased and going forward the rationale for either keeping the company in the portfolio or an exit plan.

In addition, the investment manager should notify StanCERA staff immediately on any material adverse news on a significant portfolio holding that has had a significant effect on the share price of that company. The notification should include the following information: amount of shares held, date of purchase, average purchase price, current market price, and a summary on why the company was purchased and going forward the rationale for either keeping the company in the portfolio or an exit plan.

CONTROL PROCEDURES

Review of Liabilities

All major liability assumptions regarding number of members, benefit levels and actuarial assumptions will be subject to a triennial review by the Retirement Board. This review will focus on the StanCERA's growth assumptions and actual experience.

Review of Investment Objectives

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

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

Review of Investment Managers

The Retirement Board will review the total StanCERA and individual manager performance quarterly with its consultant. At least annually, the Retirement Board will meet with each investment manager to review the goals, objectives, guidelines and performance, including total rate of return of their portfolio(s). In special circumstances (e.g., poor performance, material change in personnel, etc.), more frequent meetings may be scheduled. Any recommendations by the investment manager as to changes in the investment guidelines should be submitted to the Retirement Board in writing.

Performance reviews will focus on:

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

- The opportunities available in both equity and debt markets including comparable indices and peer group universe comparisons appropriate for monitoring individual portfolio investment strategies.

- Total Investment Fund and each investment manager's adherence to this Investment Policy.

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

The Retirement Board encourages the investment managers to have open communication with them on all significant matters pertaining to investment policies and the management of the StanCERA's assets entrusted to them.

The investment managers are responsible for keeping the Retirement Board, or its designee, advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance of their portfolios.

Performance Expectations

The most important performance expectation is the achievement of long-term investment results that are consistent with the StanCERA's Investment Policy. Implementation of the Investment Policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

In order to ensure that investment opportunities available over specific time periods are fairly evaluated, the Retirement Board will use comparative performance statistics to evaluate investment results. The total StanCERA fund and each investment manager will be expected to achieve minimum performance standards as follows:

1) Rank in the top 40% of an appropriate peer group of actively managed portfolios.

2) Exceed an appropriate benchmark index, net of management fees.

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

If the Retirement Board finds a manager is underperforming relative to performance expectations, suffers significant organizational or personnel changes, or has lost the Retirement Board's confidence, the following steps will be taken:

- The manager will be placed on an "under review" status.
- The manager will be notified.
- The Retirement Board will review the manager quarterly.
- The Retirement Board will meet with the manager, if appropriate.

If the Retirement Board's concerns are not rectified within six months, the manager is subject to termination.

POLICY APPROVAL DATE: April 27, 1999

Revision 4/2000.
Revision 7/2000.
Revision 5/2005.
Revision 7/2006.
Revision 2/2007.
Revision 9/2007.
Revision 3/2008.
Revision 12/2008.
Revision 07/2009.
Revision 05/2010.
Revision 10/2010.
Revision 7/2011.

Supplement A

PERFORMANCE MEASUREMENT STANDARDS

Asset Class/Manager	Peer Universe	Benchmark Index
OBJECTIVE:	Exceed 40th Percentile	Outperform Net of Investment Fees
Large Cap US Value:	Large Cap Value Equity Universe (Passive Index rank at 50th Percentile)	Russell 1000 Value Index
Large Cap US Growth:	Large Cap Growth Equity Universe (Passive Index rank at 50th Percentile)	Russell 1000 Growth Index
Large Cap US Core:	Large Cap Core Equity Universe (Passive Index rank at 50th Percentile)	S&P 500 Index
Small Cap US Growth:	Small Cap Growth Equity Universe	Russell 2000 Growth Index
Small Cap US Value:	Small Cap Value Equity Universe	Russell 2000 Value Index
Non U.S. Equities:		
Int'l. Large Cap Value	International Equity Total Fund Universe	MSCI ACWI Free ex-US Index ($US basis)
Int'l. Large Cap Growth	International Equity Total Fund Universe	MSCI ACWI Free ex-US Index ($US basis)
Fixed Income:		
Core Fixed Income	Bonds Total Fund Universe	Barclays Capital Aggregate Bond Index
Special Situations Fund:		
Global Real Estate	REIT Universe	FTSE EPRA/NAREIT Index
Global Long/Short Equity	Global Equity Universe	1-month US Gov't T-Bill
Infrastructure		
Total Retirement Association:	37 Act County Retirement Associations	Custom Policy Index

Measurement period: Rolling 3 to 5 years
Revised 7/2006
Amended 4/2001
Amended 5/2005
Amended 3/2008
Amended 12/2008
Amended 05/2010
Amended 07/2011

Supplement B

Equity Sector Categories as Defined by Global Industry Classification Standard (GICS)

Energy
Materials
Industrials
Consumer Discretionary
Consumer Staples
Health Care
Financials
Information Technology
Services
Utilities

Supplement C

Asset Allocation Targets and Ranges
(Special Situations Fund funded at 1.50%)

Asset Class	Target	Range
U.S. Equities	**41.4%**	**35.1% - 47.7%**
Large Cap Value	**16.3%**	**12.8% - 19.8%**
Large Cap Growth	**11.8%**	**9.3% - 14.3%**
Large Cap Core	**4.8%**	**3.8% - 5.8%**
Small Cap Value	**4.5%**	**3.5% - 5.5%**
Small Cap Growth	**4.0%**	**3.0% - 5.0%**
Non-U.S. Equities	**20.0%**	**16.0% - 24.0%**
Fixed Income	**37.1%**	**33.1% - 41.1%**
Special Situations Fund	**1.5%**	**0.0% - 3.0%**
Global REITs	**1.5%**	**0.0% - 3.0%**
Investment #2	**0.0%**	**0.0% - 0.0%**
Investment #3	**0.0%**	**0.0% - 0.0%**

Asset Allocation Targets and Ranges
(after Special Situations Fund has been fully funded at 9.00%)

Asset Class	Target	Range
U.S. Equities	**38.00%**	**35.1% - 47.7%**
Large Cap Value	**14.50%**	**11.6% - 17.4%**
Large Cap Growth	**10.70%**	**8.6% - 12.8%**
Large Cap Core	**4.30%**	**3.4% - 5.2%**
Small Cap Value	**4.25%**	**3.4% - 5.1%**
Small Cap Growth	**4.25%**	**3.4% - 5.1%**
Non-U.S. Equities	**19.00%**	**15.0% - 23.0%**
Fixed Income	**34.00%**	**30.5% - 37.5%**
Special Situations Fund	**9.00%**	**0.0% - 12.0%**
Global REITs	**3.0%**	**0.0% - 4.0%**
Global Long/Short Equity	**3.0%**	**0.0% - 4.0%**
Infrastructure	**3.0%**	**0.0% - 4.0%**

Supplement D

Special Situations Fund Policy and Procedures

Introduction
The Stanislaus County Employees' Retirement Association (StanCERA) hereby adopts the following procedures to implement the policy governing the Special Situations Fund. The Special Situations Fund was adopted by the StanCERA Retirement Board on August 22, 2006. The Special Situations Fund calls for the establishment of a new pool of investments for the purpose of investing assets within the pension fund.

The Special Situations Fund consists of investments in various asset classes that are allowable and approved by the StanCERA Retirement Board. In order to meet its long-term performance objectives, the Special Situations Fund may be comprised of a mix of commingled funds and separate accounts within the public and private markets. These investments will be determined by the StanCERA Retirement Board with the assistance of the general investment consultant and StanCERA staff.

The following Special Situations Fund procedures are designed to ensure that the StanCERA Retirement Board follows the Special Situations Fund policy in the selection of investments, and to follow, to the extent applicable, a public and competitive process in such selection. It should be noted that the Special Situations Fund procedures may be amended from time to time by the StanCERA Retirement Board, which amendments may include but are not limited to, changes in allocations of investments.

General Investment Strategy and Plan Guidelines
To maximize the risk-adjusted performance of StanCERA, the Retirement Board will follow a set of investment guidelines. These guidelines provide for the potential types of investment vehicles that can be utilized with controlled risk through prudent diversification to the existing StanCERA asset classes (U.S. Large Cap Equity, U.S. Small Cap Equity, U.S. Fixed Income, and Non-U.S. Equity), and align the interests of StanCERA and the investment managers selected for the Special Situations Fund.

The Special Situations Fund allows StanCERA to conduct controlled selection of investment strategies and instruments that do not fit neatly into one of the traditional asset class categories already approved for investment.

The Special Situations Fund may also serve as an incubator of new investment ideas and strategies. StanCERA's Board and staff along with their investment consultant will gain hands-on experience and knowledge directly from the involvement with the strategies in the Special Situations Fund. StanCERA's Board will determine if any of the programs within the Special Situations Fund deserve to have a larger and more permanent role in StanCERA's total investment mix.

Allocation

The Special Situations Fund asset allocation is established with a target of 9% of StanCERA's total portfolio market value. The range is set at 0% to 12% of total fund assets.

Investable Instruments

Programs that may be considered for the Special Situations Fund could include, but are not limited to:

- Global Equity
- Emerging Markets Debt
- Real Estate Investment Trusts
- High Yield Bonds
- Treasury Inflation Protection Securities (TIPS)
- Infrastructure
- Global Long/Short Equity

Performance Objectives

The overall benchmark for the StanCERA Special Situations Fund is StanCERA's actuarial rate of return assumption of 8.00% on a net basis. The actuarial rate of return assumption serves as the appropriate measure of the opportunity cost of investing funds in this category. Every program approved for investment within the Special Situations Fund will also require a secondary performance benchmark.

Risk Management

The limited size of the Special Situations Fund is its primary risk control mechanism. It is envisioned that once the Special Situations Fund is mature, no single program within the Fund will account for more than 30% of the total market value of the Special Situations Fund. StanCERA's investments in this Fund cannot comprise more than 20% of any one investment manager's total assets. StanCERA staff and the consultant will monitor the individual programs and report to the Board.

In addition, the Special Situations Fund will most likely invest in programs that have a low correlation to the existing StanCERA asset classes (U.S. Equity, Non-U.S. Equity and U.S. Fixed Income). The addition of investments with a low correlation to existing StanCERA asset classes should have the effect of dampening the volatility of the overall StanCERA portfolio rate of return.

Risk Parameters

The StanCERA Board, with the assistance of staff and the investment consultant will monitor and control the overall risk of the Special Situations Fund and its individual investments and will monitor compliance of the Special Situations Fund Policy and Procedures.

The risk parameters which shall be considered include:

- **Financial Risk:** The use of leverage in financing, which can increase the volatility of returns of the Special Situations Fund, is not allowable.
- **Operating and Business Risk:** Some types of investments may be in untested industries or markets, resulting in high operating/business risk. Also, some investment managers may be small and new entities which may increase the operating/business risk of the manager.
- **Liquidity Risk:** Some types of investments often lack liquidity, making it potentially difficult to exit investments before the expiration of the investment vehicle.
- **Diversifiable Risk:** Risks associated to certain styles, industries, geographies, and strategies that can be reduced through diversification within the Special Situations Fund.
- **Country Risk:** Political, economic, and currency risks when investing outside the United States.
- **Disappointment Risk:** The risk that the Special Situations Fund will fail to meet StanCERA's overall risk and return objectives.

Roles and Responsibilities

A. StanCERA Board of Trustees

The StanCERA Board is responsible for approving the Special Situations Fund Policy and Procedures. The Board will also review this document periodically and approve any changes as well as participate in the presentation of the Special Situations Fund performance reports.

The StanCERA Board is responsible for reviewing potential Special Situations Fund investment ideas presented to them by StanCERA Board members, StanCERA staff and investment consultant. Education sessions on potential new investment ideas will be an initial stage step in the process of the consideration of new ideas.

The StanCERA Board will be presented with reports from the investment consultant summarizing the potential investment idea along with presentation materials from the investment manager. The StanCERA Board will direct the investment consultant and staff whether to:

a. Deny the investment idea
b. Request additional information
c. Direct the investment consultant to move forward. The process of moving forward might involve issuing a Request For Information (RFI) to qualified vendors identified by the investment consultant and approved by the StanCERA Board.

Commitments for the individual investments require approval of StanCERA's Board of Retirement (Trustees).

B. StanCERA Staff

StanCERA staff is responsible for working with the StanCERA Board and the investment consultant for recommending the Special Situations Policy and Procedures and managing the Special Situations Fund under the framework of the Board approved Policy and Procedures. Staff is also responsible for monitoring and reporting to the Board in accordance with the requirements of the StanCERA Investment Policy.

C. Investment Consultant

The investment consultant assists the StanCERA Board and StanCERA staff with the policy recommendations and provides investment advice to the Board. The investment consultant also assists in monitoring the existing investments and researching new ideas to bring to the StanCERA Board.

Selection of Managers of Special Situation Funds Investments

In selecting Special Situation Fund investments, the same format and procedures will be utilized as in the selection of investment managers in the existing established asset classes. Each appropriate investment manager within the appropriate peer universe will be given consideration. A screening list will be proposed to the StanCERA Board for their approval for each mandate. Qualified firms will then be sent a questionnaire that will be reviewed by the investment consultant and Board.

Monitoring and Reporting

A. Quarterly

- Investment within the Special Situations Fund will be reported to the Board as part of the quarterly Investment Performance Analysis Report provided by the general investment consultant.

B. Monthly

- Investments within the Special Situations Fund will be reported to the Board as part of the overall Monthly Performance Review.