

**Stanislaus County Employees'
Retirement Association**

StanCERA

EMERGING INVESTMENT MANAGER POLICY

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StanCERA EMERGING INVESTMENT MANAGER POLICY

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I. SCOPE

This Emerging Investment Manager Policy (“EM Policy”) governs the Emerging Investment Manager Program (“EM Program”) of the Stanislaus County Employees’ Retirement Association (“StanCERA”) and shall apply to any asset class of StanCERA’s Trust Fund (“Fund”). The EM Policy is subject to all provisions of applicable law and the applicable limitations and requirements of StanCERA’s Statement of Investment Policy. The StanCERA Board (“Board”) reserves the right to amend, supplement or rescind this EM Policy at any time.

II. PURPOSE

The purpose of this EM Policy is to establish a framework for the development and administration of StanCERA’s EM Program, consistent with the Board’s fiduciary responsibilities in investment of the Fund.

III. LEGAL AUTHORITY

This EM Policy is established in accordance with Article XVI, Section 17 of the California Constitution and California Government Code sections 31594 and 31595, which establish the exclusive authority and fiduciary responsibility of the Board for the investment and administration of the Fund.

IV. DEFINITION OF EMERGING INVESTMENT MANAGERS

For purpose of this EM Policy, StanCERA defines emerging investment managers (“EMs”) – also known as portfolio managers - as investment managers who generally have total assets under management of less than \$2 billion, and, in addition, may have more limited time in business and/or a more limited track record in the specific products under consideration than would ordinarily be required in StanCERA’s standard institutional investment manager search process.

V. EMERGING INVESTMENT MANAGER PROGRAM

StanCERA’s EM Program is an investment program, developed and managed in accordance with this EM Policy. The EM Program is designed to identify investment firms with the potential to add value to StanCERA’s investment portfolio that would not be identified in StanCERA’s standard institutional investment manager search process. Studies have shown that some smaller investment firms may be able to generate superior performance due to increased market flexibility associated with smaller asset bases. StanCERA plans to utilize Manager-of-Managers (“MOMs”) for the EM Program. The allocations to the EM Program will be determined by the Board in consultation with the Investment Consultant.

VI. STRATEGIC OBJECTIVE AND GOALS OF THE EMERGING INVESTMENT MANAGER PROGRAM

The strategic objective of the EM Program is to add incremental value to the Fund through the hiring of the most talented EMs to manage StanCERA's assets.

The primary goals of the EM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages; 2) generate superior Fund return performance through the EM Program; and 3) further diversify the Fund's overall investment program, so as to enhance risk-adjusted returns of the Fund.

StanCERA may consider an EM investment when the Investment Consultant, after due diligence and investigation, have determined that:

- 1) The risk and return characteristics of the EM investment are no less favorable than comparable non-EM opportunities available; and
- 2) The EM investment is in compliance with this Policy.

VII. STANDARDS FOR EMERGING INVESTMENT MANAGERS

All investment managers selected through the EM Program shall comply with and be subject to any and all performance-related and other standards, requirements, and expectations set forth in StanCERA's Statement of Investment Policy, other than requirements regarding criteria for inclusion in StanCERA's standard institutional investment managers search process.

All investment managers selected through the EM Program shall also comply with and be subject to any and all other StanCERA Board policies, procedures and guidelines that pertain to investment managers, including without limitation, obligations regarding disclosure by investment managers of actual or potential conflicts of interest, as well as any and all other obligations imposed on StanCERA's investment managers by State and Federal law.

Agreements (contracts) with MOMs shall contain the general legal language used in other StanCERA investment management agreements (contracts) along with specific language related to the investment manager's asset allocation, performance and fees. Dollar amounts for various insurance requirements may be adjusted in light of proportionately smaller asset allocations but may not be less than a minimum amount that is deemed prudent to protect StanCERA's interests.

VIII. ROLES AND RESPONSIBILITIES

The delineation of roles and responsibilities is important for the effective administration of StanCERA's EM Program. The duties and responsibilities of the Board, Staff, Investment Consultant, counsel to StanCERA's Retirement Board ("Fiduciary Counsel") and EMs/MOMs in relation to the EM Program are stated below:

A. Board

The Board shall be responsible for approving the EM Policy that governs the EM Program and approving the implementation of the EM Program at StanCERA. The Board, with input from the Investment Consultant, shall review this EM Policy annually to determine whether modifications are necessary. The Board shall be responsible for the retention and termination of MOMs. The Board shall receive notice of the MOMs' retention and termination of EMs. The Board also has the authority to retain or terminate EMs following appropriate due diligence and recommendation by its Investment Consultant.

B. Investment Consultant

The Investment Consultant hired by the Board is a fiduciary to StanCERA and its Board. The Investment Consultant shall independently and continuously monitor and analyze the effectiveness of StanCERA's EM Program and make related recommendations in order to serve the best interests of the plan participants. The Investment Consultant shall also assist Staff in crafting the EM Policy and implementing the EM Program. In addition, The Investment Consultant shall be responsible for:

1. Ongoing monitoring of the performance of StanCERA's EMs and MOMs;
2. Monitoring EMs' and MOMs' compliance with a) their respective investment guidelines as set forth in their contract; b) this EM Policy; and c) applicable requirements of StanCERA's Statement of Investment Policy;
3. Conducting MOM searches and searches related to EMs (with Board approval) and assist staff in contract negotiations;
4. Submitting performance evaluation reports and conducting comprehensive reviews of the EMs and MOMs quarterly to the Board in conjunction with the regular quarterly performance report and review;
5. Making recommendations for retention or termination of MOMs;
6. Making recommendations for retention or termination of EMs if the Investment Consultant has information for such action and a MOM has not taken action deemed prudent;
7. Attending meetings as needed; and
8. Performing other duties in accordance with the terms of its contract and applicable State and Federal law.

C. Staff

Staff shall be responsible for accounting for and monitoring of the EM Program. Staff's responsibilities shall include, but not be limited to the following:

1. Developing and maintaining specific procedures to insure compliance with the approved EM Policy;
2. Developing and recommending changes to the EM Policy in consultation with the Investment Consultant and Counsel;
3. Assuring that the implementation of the EM Policy and management of the EM Program is in accordance with Board directives;
4. Assisting Fiduciary Counsel in contract negotiations with MOMs.

D. Fiduciary Counsel

Fiduciary Counsel is a fiduciary to StanCERA and its Board. Fiduciary Counsel shall provide legal, but not investment, advice to the Board and Staff regarding all aspects of StanCERA's EM Policy. Fiduciary Counsel shall also provide legal, but not investment, advice on StanCERA's EM Program upon request. Fiduciary Counsel shall prepare investment management agreements (contracts) in consultation with the Investment Consultant and Staff.

E. Emerging Investment Managers

EMs are fiduciaries and shall prudently manage StanCERA's assets in the best interest of StanCERA and its members. EMs shall abide by all of StanCERA's policies and procedures, and fully comply with applicable law. EMs shall be responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EM Policy; and c) applicable requirements of StanCERA's Statement of Investment Policy. EMs shall be responsible for all aspects of portfolio management as set forth in their respective contracts with StanCERA. EMs shall also:

1. Communicate with MOMs as needed regarding investment strategy and investment results;
2. Cooperate fully with Staff, Investment Consultant, StanCERA's custodian, StanCERA approved auditors, governmental regulators and MOMs concerning requests for information;
3. Submit reports to MOMs, Staff and the Investment Consultant in accordance with their contract terms; and
4. Attend meetings as needed.

F. Manager-of-Managers

MOMs are fiduciaries and shall prudently manage StanCERA's assets in the best interest of StanCERA and its members. MOMs shall abide by all of StanCERA's policies and procedures, and fully comply with applicable law. MOMs are responsible for compliance with a) the specific investment guidelines as set forth in their respective contracts; b) the EM Policy; and c) applicable requirements of StanCERA's Statement of Investment Policy. Within these parameters, MOMs shall also:

1. Maintain a comprehensive database of emerging investment managers and continuously conduct due diligence evaluation of prospective EMs;
2. Construct a diversified portfolio of EMs based on the objectives and benchmarks established by the MOM;
3. Have the authority to retain and terminate EMs based on the evaluation criteria established by the MOM;
4. Monitor and report on the performance of the individual EMs in the MOM portfolio and the MOM-managed portfolio itself; and
5. Attend meetings as needed.

IX. PERFORMANCE EVALUATION CRITERIA

The specific performance evaluation criteria for EMs and MOMs shall be established in the StanCERA Statement of Investment Policy.

X. MONITORING AND REPORTING

The Investment Consultant and Staff will closely monitor and analyze the EM Program to ensure compliance with the EM Program's strategic objective and goals. EMs and MOMs are required to submit all reports to the Investment Consultant and Staff in accordance with their respective contracts and applicable requirements set forth in the StanCERA Statement of Investment Policy.

The Investment Consultant will perform comprehensive evaluations of StanCERA's EM Program, the EMs and MOMs annually, and will report the findings to the Retirement Board.

XI. QUALIFICATIONS OF EMERGING INVESTMENT MANAGERS AND MANAGER-OF-MANAGERS AND StanCERA DUE DILIGENCE

StanCERA seeks to retain the most talented EMs to manage StanCERA's assets. Those EMs and MOMs that comply with Federal and State laws, StanCERA's Statement of Investment Policy, specific investment manager agreement (contract) and produce superior investment results (as measured and verified by the Investment Consultant) that meet the objectives and goals of the EM Program will be retained. All investment managers are subject to a comprehensive due diligence review process by StanCERA and its Investment Consultant.

XII. EFFECTIVE DATE

This Policy shall become effective upon adoption by the Board.