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November 22, 2013

NOTICE OF PUBLIC MEETING

To: Internal Governance Committee:
Maria De Anda, Chair
Joan Clendenin, Trustee
Donna Riley, Trustee

From: Rick Santos, Executive Director

SUBJECT: StanCERA INTERNAL GOVERNANCE COMMITTEE

The Internal Governance Committee will meet at 12:30 p.m., Tuesday, November 26, 2013.

The Committee will meet in the Conference Room at StanCERA's Office, located at 832 12th Street, Suite 600, 6th Floor, Modesto.

AGENDA

1. Discussion and Action to Approve the Revised Statement of Investment Policy **View**

2. Biennial IT Security Audit

11/26/13
Item# 1

Stanislaus County Employees' Retirement Association

STATEMENT OF INVESTMENT POLICY

January 1, 2014

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INTRODUCTION

Purpose

The purpose of the Stanislaus County Employees' Retirement Association (StanCERA, hereafter referred to as the "Plan") is to provide and protect retirement benefits for its members and beneficiaries. To help accomplish this mission, 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 Plan's assets are responsibly managed in accordance with the actuarial needs of the Plan with sound financial investment practices and with the ultimate goal of ensuring the Plan's ability to meet benefit requirements when they come due.

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 various investment strategies in relation to the current and projected cash flows of the Plan. This Investment Policy has been chosen as the most appropriate policy for achieving the financial objectives of the Plan, 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 Plan 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 the Plan 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 regularly scheduled board meetings, at least biennially, or as necessary. Over time, as the Plan moves in the direction of asset liability management, changes to this statement may be made more frequently. It should be understood this document is not static and will evolve over time.

Scope

This document refers to the management of the funds held in trust for the benefit of all members of the Plan. Members of the Plan include:

1. Those actively employed; and
2. Those that have earned a vested benefit that is payable at some point in the future; and
3. Those that have monies on deposit with the plan, yet have not earned a vested benefit; and
4. Those that are retired; and
5. Those that are beneficiaries of former active members

The term of this policy in indefinite and does not expire.

DUTIES AND RESPONSIBILITIES

Retirement Board

The Retirement Board is responsible for developing the Investment Policy and for overseeing the investment activities of the Plan. 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. In no case can the Retirement Board or any of its designees consent to a waiver or transfer (whether implicit or explicit) of its fiduciary duty to any individual or other Organization that manages funds for the Plan.

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

While working closely with the Plan's staff, the Investment Consultant will:

1. Prepare for review and approval all amendments to StanCERA's Investment Policy; and
2. Will recommend the appropriate asset allocation to the Board; and
3. Will recommend the Investment Manager Structure that best fits that asset allocation; and
4. Will perform individual Investment Manager Searches as needs arise, based upon the approved Investment Manager Structure, and bring to the Board for interview and approval; and
5. Provide monthly updates on Investment Manager performance (actual vs target allocation); and
6. Coordinate or provide education to the Retirement Board members and staff on current investment trends and topics; and
7. Periodically visit investment managers and securities custodian and keep the Board informed of matters learned from such meetings; and
8. Will assist StanCERA in fee negotiations with StanCERA's investment managers and securities custodian ; and
9. Be available to assist StanCERA's staff as it relates to StanCERA's investments and attend Retirement Board meetings when requested.

Custodians

The custodians hold for safekeeping all the securities included in all investment management portfolios, except as may otherwise be stated in this document. The custodian insures collection of interest and dividends and will issue regular detailed reports on holdings, their value, and all transactions. The Plan'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 the Plan's commingled funds, except as may otherwise be stated in this document.

Staff

The Plan's staff shall have the following responsibilities:

1. Prepare for review and approval all amendments to StanCERA's Investment Policy; and
2. Monitor all transactional cash flows; and
3. Approve all cash flows between manager accounts; and
4. Monitor and reconcile the reporting accuracy between the custody bank and all investment managers; and
5. Monitor the accuracy and validity of all invoices submitted by the Plan's investment managers; and
6. Provide the Board of Retirement with quarterly updates pertaining to risk management and value added; and
7. Make recommendations to the Board regarding investment strategies and risk mitigation techniques; and
8. Perform due diligence on potential new investment managers; and
9. Provide the Board with information necessary to carry out their fiduciary responsibilities

This list is not meant to be exhaustive or complete as staff is also required to act as a fiduciary and steward of the fund's assets and as such, must take any action(s) that promote or enhance their fiduciary responsibilities.

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:

1. That asset allocation is the key determinant of return and, therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program; and
2. That diversification, both by and within asset classes, is the primary risk control element on the asset side; and
3. That passive fund portfolios are suitable investment strategies, especially in highly efficient markets; and
4. That active investing should provide returns after fees that exceed a passive benchmark; and
5. Assets that produce cash flows similar in timing and size to the required benefit obligations is the most efficient and effective way to minimize pension risk; and
6. That risk budgeting is the main idea towards the understanding and allocation of risk across the portfolio

STATEMENT OF OBJECTIVES

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

1. Preserve the actuarial soundness of the Plan in order to meet benefit obligations; and
2. Pay for the projected cash flows/Actuarial Accrued Liability including the present value of all mandatory benefits being paid; and
3. Maintain sufficient liquidity to meet benefit payment obligations on a timely basis; and
4. Maximize return within reasonable and prudent levels of risk. However, this is secondary to fully funding the Plan's benefit obligations; and
5. A long-term (one to two market cycles) return of at least the expected actuarial rate of return ; and
6. A 5-year, rolling rate of return, net of fees, in excess of its Investment Policy benchmark, a hypothetical portfolio of index funds weighted by asset allocation targets.

This Investment Policy has been established in conjunction with a comprehensive review of both the current and projected financial requirements of the Plan 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 should be viewed in the context of a long term (one to two market cycles) return, so that interim fluctuations should be viewed with appropriate perspective.

Relative performance benchmarks for the Plan'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 Plan 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

Asset Class	Minimum	Target	Maximum
Large Cap U.S. Stocks	26.5%	30.5%	34.5%
Small Cap U.S. Stocks	6.3%	7.7%	8.9%
Non U.S. Stocks	15.0%	18.0%	21.0%
Fixed Income	26.0%	29.8%	33.6%
Alternative Investments			
Direct Lending	2.5%	7.5%	9.0%
Real Estate	1.0%	3.5%	4.5%
Infrastructure	0.0%	3.0%	4.0%
Cash	0.0%	0.0%	2.0%

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. Upon completion of an asset allocation study the Retirement Board may adopt an adjusted asset allocation. It is recognized that until the Alternate Class is fully funded, target ranges for all asset classes may be prorated based on their target weight relative to the other class weights multiplied by the yet uncommitted target percentage until full implementation of the adjusted and adopted allocation is achieved

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 Plan 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 these transitory divergences from Investment Policy are kept as brief as possible. This may require rebalancing the assets when necessary.

Rebalancing Procedures

Overall asset allocation

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 prescribed allocation policies above and guidelines in the paragraphs 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 within the affected asset classes 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 within the affected asset class that are the most above their target allocations will be invested in the portfolios that are the most below their target allocation respectively with their benchmarks.

Individual Investment Portfolios

The Retirement Board will periodically review all such holdings within asset classes. The Retirement Board will rebalance these holdings within asset classes back toward their targets whenever the Retirement Board identifies that 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 Plan to be fully invested to the maximum extent possible. It is further understood that the Plan's managers at any point in time may not be fully invested. While the Plan's 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.

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 written approval by the Retirement Board or its designee.

Fixed Income Holdings

It is understood and acknowledged that benefit payment shortfalls (benefit payments less contributions) can be most efficiently managed from our fixed income portfolio. As a result, liquidity levels in the fixed income portfolios may naturally contain higher levels of cash relative to non-fixed income portfolios. Even so, excess cash holdings in separate short term fixed income accounts should be minimized. 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.

Equity Holdings

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 5% of the market value of each portfolio except for brief periods or approval by the Board of Retirement or its designee. If cash holdings in actively managed equity portfolios exceed or are expected to exceed 5% for a period greater than 14 days, the active manager shall report the amount and reason to the Retirement Board's designee. Exceptions are normally allowed when building liquidity in anticipation of a large withdrawal or by special permission from 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 the total portfolio dedicated to 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 Plan's 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 Executive Director 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

The Plan acknowledges that the concept of volatility may be framed within many different contexts. However, for pension funding, a complete discussion of volatility must take into account not only assets but the relationship between projected cash flows (actuarial liabilities) and the assets and the differences between the two (unfunded liability/surplus).

Asset Volatility

Consistent with the desire for adequate diversification, the investment policy is based upon the assumption that the volatility of the total portfolio 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 the risk/reward opportunities offered within. The concept of risk budgeting will be the main idea towards the understanding and allocation of risk across the portfolio.

Asset Volatility and Pension Risk

StanCERA understands that its first priority is the timely payment of all benefit obligations. In this context, pension risk should be defined as the ability of the Plan to meet its contractual promises to its members. As a result, StanCERA believes assets that produce cash flows similar in timing and size to the required benefit obligations is the most efficient and effective way to minimize pension risk while balancing the stability and sustainability of required plan sponsor contributions. StanCERA will continue to monitor the opportunities afforded in the interest rate environment and update the Investment Policy accordingly.

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.

At any point in time, half of all the Plan's current benefit obligations (on a present value basis) will not be paid for at least 12-13 years. As a result, StanCERA believes that the Plan may be able to earn sufficient liquidity premiums by investing in illiquid assets that provide payment at undeterminable points in time. At this time, the Plan will not invest more than that allocated to the alternative class of investments.

Voting of Proxies

Voting of proxy ballots shall be for the exclusive benefit of the members and beneficiaries of the Plan. 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 Plan'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 at the time of purchase. 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. At no time shall the amount currently out on loan exceed 50% of the total market value of securities that can physically be lent from the Plan's portfolio.

The following list comes directly from an agreement entered into between the Plan and its current Custodian and provides the specific Non-U.S. collateral that may be accepted:

1. Debt obligations and securities issued by a government where such government is a ratified member of the Organization for Economic Co-Operation and Development, or by the government of Singapore. Debt obligations and securities issued by agencies and instrumentalities of these same governments are also acceptable.

2. Debt obligations issued by the following supranational issuers:

   European Bank for Reconstruction and Development
   European Investment Bank
   European Union
   Inter-American Development Bank
   International Bank for Reconstruction and Development

International Finance Corporation
European Financial Stability Facility
Eurofima
Council of Europe Development Bank
Eutelsat
Organisation for Economic Co-operation and Development
African Development Bank
Asian Development Bank
Bank for International Settlements
Euratom
European Coal and Steel Community
International Development Association
International Monetary Fund
Nordic Investment Bank

3. Equity securities listed on the following indices (including Depositary Receipts where the underlying equity security is listed on the following indices):

   AEX 25 (Netherlands)
   CAC 40 (France)
   DAX 30 (Germany)
   Euro 50 (Eurozone)
   FTSE 100 (United Kingdom)
   Nikkei 225 (Japan)
   SMI 20 (Switzerland)
   S&P 500 (United States of America)
   HEX 25 (Finland)
   Copenhagen 20 (Denmark)
   Stockholm 30 (Sweden)
   IBEX 35 (Spain)
   FTSEMIB (Italy)
   Hang Seng (Hong Kong)
   S&P/ASX 200 (Australia)
   S&P/TSX 60 (Canada)
   Russell 1000 (United States of America)
   OBX (Norway)

4. FTSE100 DBV (Class F10) as defined in the CREST Reference Manual.

5. Unstripped British Government debt DBV (Class UBG) as defined in the CREST Reference Manual.

6. Corporate bonds issued by companies domiciled in one of the following countries where such corporate bond has a rating of (i) A or better by Standard & Poor's or (ii) A or better by Fitch or (iii) A2 or better by Moody's or (iv) A or better by DBRS.*

Australia	Luxembourg
Austria	Netherlands
Belgium	New Zealand
Canada	Norway
Denmark	Portugal
Finland	Singapore
France	Spain
Germany	Sweden
Ireland	Switzerland
Italy	United Kingdom
Japan	

7. Convertible securities that are immediately convertible into, or exchangeable for, securities of the same issuer, class, type and term (if applicable) as the securities that are being loaned, and in at least the same number of those loaned.

8. Debt obligations and securities issued by Canadian Provincial governments where such Provincial government has a rating of (i) A or better by Standard & Poor's or (ii) A or better by Fitch or (iii) A2 or better by Moody's or (iv) A or better by DBRS.*

* Instruments which are eligible at the time of acceptance, but with respect to which the issuer of the instrument or the instrument itself (as applicable) is subsequently downgraded below the minimum applicable rating level, will be replaced in a prudent manner but will remain eligible until replaced.

GUIDELINES FOR SECURITY HOLDINGS

Investment Guidelines

1. 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; and
2. 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; and
3. The use of permissible derivatives by investment managers to hedge currency risk as stated above is limited to the value of the portfolio that they are managing; and
4. 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; and
5. Under no circumstances will investment managers use any instruments to create financial leverage within a portfolio; and
6. The use of individual stock options, puts or calls is not permitted without prior written approval of the Retirement Board; and
7. Written approval from the Board with its desire is required if the use of permissible derivatives as stated in #2 exceeds 25% of the total value of the portfolio they are managing.

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.

The Small Cap Value and Growth investment managers manage an "Emerging Manager of Managers" program composed of multiple small cap value/growth sub-managers that 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 Plan's Statement of Investment Policy guidelines. It should be noted that the Plan's 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 written authorization from the Retirement Board or its 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 or cash equivalents 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. 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 the Plan, whichever is smaller.

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. As such, the use of permissible derivatives by investment managers to employ currency hedging strategies is limited to the value of the holdings at risk at the time the currency hedging strategy is to be employed and in the currency of which the security is denominated in.

Fixed Income Security Holdings

These guidelines apply at the time of purchase.

Fixed income investments shall generally be marketable securities which may include, but not necessarily be limited to, U.S. Treasury, Treasury inflation-indexed securities, Federal Agencies and Government Sponsored Enterprises (GSEs), other U.S. government-related securities and corporate issues, including capital securities, REIT debt obligations, equipment trust certificates, enhanced equipment trust certificates, pass-through certificates, convertibles, municipal securities, securities issued under SEC Rule 144A and other private placement securities, mortgage pass-throughs, real estate mortgage investment conduits (REMIC's), collateralized mortgage obligations, to-be-announced (TBA) mortgages (provided they are backed by cash or cash equivalent), collaterized debt obligations, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and non-dollar denominated bonds may be held. Also permitted are U.S. dollar denominated debt of non-U.S. issuers, including: corporate, sovereign, foreign agencies, foreign local government entities, and supranationals, and all security types included in the benchmark, as well as other securities deemed suitable under the guidelines. Securities received in exchange offers or other situations are not subject to the guidelines, but the investment manager shall notify the client after such occurrences.

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

At least 85% of the manager's fixed income portfolio (weighted by current market value) 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% of the manager's total portfolio value. 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 lower of the Moody's, Standard & Poor's, and Fitch rating to determine compliance with quality guidelines and GASB 40, 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 private placements, excluding securities issued under SEC Rule 144A with registration rights.

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. Interest only (IO) and principal only (PO) securities stripped from U.S. Treasuries are exempt from this prohibition.

Futures and options can be used as a substitute for fixed income provided they are 100% collateralized by highly liquid, low volatility fixed income securities or cash equivalents 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 or its designee 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 U.S. Aggregate Bond Index duration unless otherwise directed by the Board of Retirement.

Prohibited Investments

1. Letter stock and other unregistered equity securities; and
2. Commodities or commodity contracts (except for unleveraged stock or bond index futures and currency futures and options); and
3. Ownership of real estate in any form other than publicly traded securities (Real Estate Investment Trusts) except for land buildings owned and operated by the Plan; and
4. Short sales, warrants or margin transactions; or any leveraged investments unless explicit Board approval is given; and
5. Venture capital funds; and
6. Commodities 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 identifies that the long term risk adjusted return expectations for the portfolio is enhanced.

Corporate Fraudulent Behavior Notification Guidelines

The investment manager shall notify StanCERA staff immediately by written communication upon any reported fraudulent behavior committed in any of their holdings. The notification shall include the following information: amount of shares held or units of investment 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 shall notify StanCERA staff by written communication immediately upon any material adverse news on a significant portfolio holding that has had, or likely will have a significant effect on the share price of that company. The notification shall include the following information: amount of shares held or units of investment 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 review at least every 4 years or more frequently if deemed necessary by the Retirement Board. This review will focus on the Plan's growth assumptions and actual experience.

Review of Investment Objectives

Investment objectives will be reviewed by the Retirement Board biennially or as necessary 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 Plan and individual manager performance quarterly with its consultant and StanCERA staff. Annually, the Retirement Board will meet with each investment manager to review the goals, objectives, guidelines and performance. In special circumstances, 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.

By way of a combination of staff reports and investment consultant reports, performance reviews will focus on:

1. Value Added – The manager's ability to consistently add value to the portfolio after fees. Positive value added means the manager is earning returns above the benchmark after managerial and custodial fees are paid;
2. Benchmark relative risk to reward measurement – The manager's ability to earn a return similar to the benchmark at a lower level of relative risk;
3. Contribution to total portfolio risk and return – The manager's marginal addition to total portfolio returns and total portfolio risk;
4. Peer group comparison – The manager's performance as compared to other managers implementing the same style;
5. Investment manager's adherence to StanCERA investment policy; and
6. Material changes in the manager organizations, such as an 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 Plan'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, risk adjusted investment results that are consistent with the Plan'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 Plan's total fund and each investment manager will be expected to achieve minimum performance standards as follows:

1. Rank in the top 50% 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:

1. The manager will be placed on an "under review" status; and
2. The manager will be notified; and
3. The Retirement Board will review the manager quarterly; and
4. The Retirement Board will meet with the manager, if appropriate.

Under Review

This section deals with criteria associated with a manager being under review

Manager Disposition

This section deals with the disposition of an active manager regarding performance as measured in the prior paragraph.

POLICY APPROVAL DATE: April 27, 1999

Revised 4/2000.
Revised 7/2000.
Revised 5/2005.
Revised 7/2006.
Revised 2/2007.
Revised 9/2007.
Revised 3/2008.
Revised 12/2008.
Revised 07/2009.
Revised 05/2010.
Revised 10/2010.
Revised 7/2011.
Revised 11/2013

Supplement A

PERFORMANCE MEASUREMENT STANDARDS

Asset Class/Manager	Peer Universe	Benchmark Index
OBJECTIVE:	Exceed 50th 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 U.S. Aggregate Bond Index
Alternative Investment Fund:		
US Real Estate		
Direct Lending	NCREIF ODCE and/or REIT Universe	NCREIF ODCE and/or Dow Jones US Select RE Securities Index9% Annualized Return
Infrastructure		CPI + 400 bps
Total Retirement Association:		Custom Policy Index

Measurement period: Rolling 3 to 5 years
Revised 7/2006
Revised 4/2001
Revised 5/2005
Revised 3/2008
Revised 12/2008
Revised 05/2010
Revised 07/2011
Revised 03/2013

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

Asset Class	**Target**	**Range**
U.S. Equities	**38.2%**	**32.2% - 44.2%**
Large Cap Value	**14.4%**	**11.4% - 17.4%**
Large Cap Growth	**11.3%**	**7.8% - 14.8%**
Large Cap Core	**4.8%**	**3.8% - 5.8%**
Small Cap Value	**4.0%**	**3.0% - 5.0%**
Small Cap Growth	**3.7%**	**2.7% - 4.7%**
Non-U.S. Equities	**18.0%**	**15.0% - 21.0%**
Fixed Income	**29.8%**	**26.0% - 33.6%**
Alternative Fund	**14.0%**	
Real Estate	**3.5%**	**1.0% - 4.5%**
Direct Lending	**7.5%**	**2.5% - 9.0%**
Infrastructure	**3.0%**	**0.0% - 4.0%**

Revised 11/2013

Supplement D

Alternative Investment Class Policy and Procedures

<u>Introduction</u>

The Stanislaus County Employees' Retirement Association (StanCERA) hereby adopts the following procedures to implement the policy governing the Alternative Investment Class. The Alternative Investment Class was adopted by the StanCERA Retirement Board on November 7, 2012. The Alternative Investment Class calls for the establishment of a new pool of investments for the purpose of investing assets within the pension fund.

The Alternative Investment Class consists of investments in various assets that are allowable and approved by the StanCERA Retirement Board. In order to meet its long-term performance objectives, the Alternative Investment Class 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 Alternative Investment Class procedures are designed to ensure that the StanCERA Retirement Board follow the Alternative Investment Class 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 Alternative Investment Class procedures may be revised from time to time by the StanCERA Retirement Board, which amendments may include but are not limited to changes in allocations of investments.

<u>General Investment Strategy and Plan Guidelines</u>

To maximize the risk-adjusted performance of the Plan, 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 Alternative Investment Class.

The Alternative Investment Class 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 Alternative Investment Class 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 Alternative Investment Class. StanCERA's Board will determine if any of the programs within the Alternative Investment Class deserve to have a larger and more permanent role in StanCERA's total investment mix.

Allocation

Currently, the Alternative Investment Class asset allocation is established with a target of 14.0% of the Plans total portfolio market value. The new alternative investments that make up the Alternative Investment Class and their respective allocations follow:

Alternative Investment	Allocation
Direct Lending	7.5%
Real Estate	3.5%
Infrastructure	3.0%

Alternative Investment Class Aggregate Performance Objectives

The overall benchmark for the Alternative Investment Class is the Plan's actuarial rate of return assumption 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 alternative investment approved for investment within the Alternative Investment Class will also require the following secondary performance benchmarks:

Alternative Investment	Secondary Benchmark
Direct Lending	9% Annualized Return
Real Estate	NCREIF/NAREIT
Infrastructure	CPI + 400 bps

Risk Management

The limited size of the Alternative Investment Class is its primary risk control mechanism. It is envisioned that once the Alternative Investment Class is mature, no single program within the Class will account for more than 60% of the total market value of the Alternative Investment Class. The Plan's individual investments in this Class cannot comprise more than 30% of any one alternative investment manager's total assets. StanCERA staff and the consultant will monitor the individual programs and report to the Board.

In addition, the Alternative Investment Class will most likely invest in programs that have a low correlation to the existing Plan's asset classes (U.S. Equity, Non-U.S. Equity and U.S. Fixed Income). The addition of investments with a low correlation to existing Plan asset classes should have the effect of dampening the volatility of the overall Plan's 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 Alternative Investment Class and its individual investments and will monitor compliance of the Alternative Investment Class Policy and Procedures.

The risk parameters which shall be considered include:

1. **Financial Risk:** The use of leverage in financing, which can increase the volatility of returns of the Alternative Investment Class, is not allowable; and
2. **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; and
3. **Liquidity Risk:** Some types of investments often lack liquidity, making it potentially difficult to exit investments before the expiration of the investment vehicle; and
4. **Diversifiable Risk:** Risks associated to certain styles, industries, geographies, and strategies that can be reduced through diversification within the Alternative Investment Class; and
5. **Country Risk:** Political, economic, and currency risks when investing outside the United States; and
6. **Disappointment Risk:** The risk that the Alternative Investment Class will fail to meet the Plan's overall risk and return objectives.

Roles and Responsibilities

StanCERA Board of Trustees

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

The StanCERA Board is responsible for reviewing potential Alternative Investment Class 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 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 potential investment manager. The StanCERA Board will direct the investment consultant and staff whether to:

1. Deny the investment idea
2. Request additional information
3. 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).

StanCERA Staff

StanCERA staff is responsible for working with the StanCERA Board and the investment consultant for recommending the Alternative Investment Policy and Procedures and managing the Alternative Investment 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 Plans Investment Policy.

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 and reporting the existing investments and researching new ideas to bring to the StanCERA Board.

Selection of Managers for the Alternative Investment Fund

In selecting Alternative 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, staff and Board.

Monitoring and Reporting

Quarterly

Investment within the Alternative Investment Class will be reported to the Board as part of the quarterly Investment Performance Analysis Report provided by the general investment consultant.

Monthly

Investments within the Alternative Investment Class will be reported to the Board as part of the overall Monthly Performance Review.

Revised 11/2013

Supplement D

Alternative Investment Class Investment Policy Modules

Direct Lending

Overview

Generally, managing risks associated with Direct Lending can be challenging since it is often characterized by non-traditional risk/return profiles, limited portfolio transparency, and illiquidity; all crucial assumptions for the validity of standard deviation as the traditional risk measure. Therefore, traditional risk and return measures (mean return, standard deviation of returns, and beta) may not provide an adequate picture of Direct Lending risks and characteristics.

Consequently, StanCERA has identified that it will monitor results and fund holdings in such a way as to determine whether a fund has performed in line with its original expectations and continues to comply with its prospectus, with an emphasis on the forecasted periodic cash flows and returns.

Objective

To commit 7.5% of StanCERA's total portfolio to the Direct Lending asset class and to earn current income and to a lesser extent, capital appreciation by originating and investing in a diversified portfolio of corporate credit and asset-based debt and equity instruments issued by privately held small-to-middle market companies located primarily in North America.

The protection of capital is of the utmost importance. Accordingly, the external direct lending manager shall seek to make investments backed by assets and cash flows.

Risks

General Risks of Lending
Interest Rate Risk
Debt Securities and Obligations
Bankruptcy of Portfolio Companies
Lower Rated Debt
Risks in Effecting Operating Improvements

Performance Measurement

It is understood that market-price revealing events that affect the value of an investment in Direct Lending occur infrequently. As such, performance measurement will focus on calculating the internal rate of return (IRR) based on actual cash flows since inception as compared to the original expected cash flows in the fund's prospectus.

It is further understood that internal rate of return calculations will necessarily produce negative returns until distributions are equal to or greater than contributions. At this point, as an additional measurement, LIBOR + 750 basis points would be an appropriate proxy to the opportunity cost involved with this type investment.

Internal rates of return should be derivable on a monthly basis, however, it is understood that asset values may only be reliably ascertained on a quarterly basis.

Performance Evaluation

When evaluating performance, StanCERA will consider the relative uncertain nature of the projected cash flows from Direct Lending investments. When comparing the expected versus actual internal rates of return, a 50% relative downside difference will be used as a minimum standard of performance. When the ratio of the actual internal rate of return to the expected internal rate of return falls below 50%, this would be considered sub-par performance when compared to the original expected performance.

As the investment matures, the proxy referred to in the Performance Measurement section would then become an additional evaluation metric.

Performance Monitoring

If it is determined that a Direct Lending Manager's performance is sub-par (as described in the above section) when compared to its original expectations, staff will be required to provide the Board on a semi-regular basis, the following information throughout the resolution of the underperformance and/or remainder of the Direct Lending contract:

Manager shall provide staff with an executive summary of the following:

1. What specifically has caused the underperformance
2. Whether cause of underperformance will affect other performing loans in the portfolio
3. Details of strategy to mitigate continued underperformance
4. Manager to determine likelihood for a successful resolution
5. Contingency Plan in the event that a successful resolution is not likely

1st Approved 3/26/2013 Revised 11/2013

Supplement D

Alternative Investment Class Investment Policy Modules

Real Estate – *Under Construction*

Supplement D

Alternative Investment Class Investment Policy Modules

Infrastructure – ***Under Construction***