



## **Indiana Public Retirement System**

### **Investment Policy Statement**

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INPRS Investment Policy Statement

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## Section 1 Definitions

1. **“Actuarial Required Rates of Return”** refers to the rate of return approved by the Board during the most recent asset-liability study.
2. **“Board”** refers to the board of trustees of the System established by IC 5-10.5-3-1.<sup>1</sup>
3. **“Chief Investment Officer”** or **“CIO”** means the System’s acting chief investment officer.
4. **“Consultant(s)”** are third party persons or firms who are approved by the Board and are responsible for providing advice on the investment program based upon their expertise and their analysis of the issues under consideration.
5. **“Custodian(s)”** is a bank or trust company which is retained by the Board to hold the assets of the System. A Custodian serves as an additional layer of risk control for the Fund by ensuring that any movement of funds is properly approved and documented.
6. **“Executive Director”** or **“ED”** refers to the director of the System.<sup>2</sup>
7. **“Guaranteed Fund”** refers to the short term fixed income assets managed in the ASA plans exclusively for risk-free contributions.
8. **“Investment Committee”** refers to a committee of the Board, established by the Investment Committee Charter and Board of Governance Manual, responsible for providing additional oversight through more in-depth deliberations on topics specifically pertaining to the investment portfolio and department, so as to allow the Board the ability to better carry-out their fiduciary duties.<sup>3</sup>
9. **“Investment Managers”** refers to an external person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the Fund under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC (e.g. banks and insurance companies and affiliates).
10. **“Investment Staff”** means the employees of the System responsible for performing investment activities who report to the CIO.
11. **“Legal Counsel”** refers to attorney(s) engaged to provide legal advice to the System.
12. **“Other Retirement Fund(s)”** refers to the System’s assets that are not part of the Retirement Funds.
13. **“Policy”** refers to the INPRS Investment Policy Statement, as amended from time to time.
14. **“Portfolio”** refers to the assets managed by an Investment Manager according to a specific mandate or strategy.
15. **“Retirement Fund(s)”** refers to the System’s assets that are unitized.
16. **“Service Provider(s)”** means all external parties who perform investment-related services for the System or Retirement Funds, including, but not limited to, Consultants, Custodians, Investment Managers, legal counsel, data aggregators, securities litigation monitors, etc.
17. **“Staff”** refers to all employees of the System, including the ED and CIO.
18. **“System”** refers to the Indiana Public Retirement System established by IC 5-10.5-2-1.<sup>4</sup>
19. **“Target Rates of Return”** refers to the long-term net-of-fee rates of return targeted through the approval of an asset allocation during the asset-liability study.

## Section 2 Introduction

The Indiana Public Retirement System (“INPRS” or the “System”) was statutorily established on July 1, 2011<sup>5</sup> and is responsible for the management and administration of Indiana’s public retirement funds and pensions systems including:

1. Indiana State Teachers’ Retirement Fund;
2. Indiana Public Employees’ Retirement Fund;
3. 1977 Police Officers’ and Firefighters’ Pension and Disability Fund;
4. Indiana Judges’ Retirement Fund;
5. Legislators’ Retirement System, which includes the Legislators’ Defined Benefit Plan and the Legislators’ Defined Contribution Plan;
6. State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers’ Retirement Fund;
7. Prosecuting Attorneys’ Retirement Fund;
8. Pension Relief Fund;
9. Public Safety Officers’ Special Death Benefit Fund; and
10. State Employees’ Death Benefit Fund.<sup>6</sup>

Prior to July 1, 2011, the retirement plans for Indiana public employees were administered by two separate boards of trustees, the Public Employees Retirement Fund Board and the Indiana State Teachers’ Retirement Fund Board.

### 2.1 System Oversight

Oversight of the System’s assets is the responsibility of the INPRS Board of Trustees (“Board”).<sup>7</sup> The Board is supported by an Investment Committee, Executive Director (“ED”), Chief Investment Officer (“CIO”) and internal investment and legal staff (“Staff”) and externally by investment consultants (“Consultants”), Investment Managers, Custodian(s), legal counsel and all others fulfilling fiduciary duties (collectively, each external party, a “Service Provider”).

### 2.2 Authority for Investment Policy Statement

Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as a fiduciary for all assets under its control.<sup>8</sup>

### 2.3 Fiduciary Standard

The Board is required by law to invest the System’s assets with the care, skill, prudence, and diligence 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 with like aims. The Board is also required to diversify such investments in accordance with prudent investment standards.<sup>9</sup>

### 2.4 Scope of Investment Policy Statement

This Policy is binding on all persons with authority over the System’s assets, including the Board, Investment Managers, Custodians, Consultants, Staff, Investment Committee, Service Providers as well as any other person who has a fiduciary relationship with the System.

This Policy is divided into multiple sections and each section is only applicable to the Retirement Funds unless otherwise stated. The Policy also includes multiple Addendums, which are an integral part of this Policy and are incorporated into the Policy by reference.

## **2.5 Compliance with the Law**

The Board, Staff and Service Providers are required to comply with all applicable federal and state laws, rules and regulations. This Policy attempts to describe the applicable laws and specifically identifies such laws in the endnotes. However, in the event of any conflict between the law and this Policy, the law prevails, and each fiduciary to the System is ultimately responsible for interpretation and compliance with laws.

## **2.6 Contact**

Questions and comments relating to the application or interpretation of this Policy and any written notice required to be delivered should be directed to:

Indiana Public Retirement System  
Attn: Chief Investment Officer  
One North Capitol Avenue, Suite 001  
Indianapolis, IN 46204

### **Section 3 Objectives and Purpose of Policy**

All aspects of this Policy shall be interpreted in a manner consistent with the System's objectives. The primary objective of the System is to maintain adequate funding for each retirement fund and pension system in order to provide for the payment of such fund's actuarially determined liabilities over time in a cost-effective manner.

The purpose of this Policy is to support this general objective by:

1. Setting forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs and legal requirements applicable to direct investment of the assets;
2. Making a clear distinction between the roles and responsibilities of the Board, Staff, and each Service Provider;
3. Establishing formalized criteria to measure, monitor and evaluate the performance results of the Investment Managers;
4. Communicating the investment policies, objectives, guidelines, and performance criteria of the Board to the Staff, Investment Managers, Consultants, Service Providers, employers, members and all other interested parties; and
5. Serving as a review document to guide the ongoing oversight of the investments by the System and demonstrating that the Board is fulfilling its fiduciary responsibilities in the administration and management of each Retirement Fund's assets solely in the interests of such Retirement Fund's members and beneficiaries.

The Board intends for this Policy to be a dynamic document, and, as such, expects to conduct periodic reviews utilizing input from Staff, Consultants and other knowledgeable parties. The Board anticipates approving changes from time to time to reflect changes in any or all of: economic and market conditions, investment opportunities, the System's investment strategy, benefit provisions, and the System's governance. This Policy shall be reviewed on a regular basis, at minimum upon completion of an asset liability study.

## **Section 4 Guiding Principles**

The Board has adopted a set of guiding principles for oversight and management of the Retirement Fund's assets. They are as follows:

### **4.1 Time Horizon**

Given the Retirement Funds' intent to provide retirement security for current and future members and beneficiaries, long-term is defined as greater than ten years.

### **4.2 Target Rates of Return**

The Board shall set Target Rates of Return for the Retirement Fund based on input from the System's Actuaries, CIO, Investment Staff, and Consultant

### **4.3 Asset Allocation**

The asset allocation is the most important determinant of long-term investment results. The CIO and Consultant shall recommend, for Board approval, asset allocation strategies that are expected to meet such Retirement Funds' Target Rates of Return, while minimizing risk. Within each asset class, the CIO and Investment Staff, at their discretion, may establish subcategories in order to better match the risk profile of the Board approved asset allocation.

### **4.4 Risk Tolerance**

The Board acknowledges that markets will exhibit short-term volatility that may cause variations in the total portfolio's performance. However, the long-term nature of the Retirement Funds should allow them to weather such fluctuations.

### **4.5 Preservation of Capital**

It is important to limit the loss of capital during challenging market environments, as significant losses can reduce the probability of achieving the Target Rates of Return.

### **4.6 Diversification**

True diversification goes beyond simple capital allocation. Rather, the diversification of asset class risk factors is paramount in achieving the most efficient risk-adjusted return over various economic environments.

### **4.7 Sources of Return**

The Retirement Fund's assets should be constructed using an array of diversified asset classes and attractive global investment opportunities.

### **4.8 Liquidity**

The investment strategies employed for the Retirement Funds shall consider liquidity needs in order to fund withdrawals for benefit payments, fees and expenses, and other obligations. Provided there are sufficient monies available to meet cash outflows, the Retirement Funds have the ability to take advantage of superior risk-adjusted returns provided by prudent investments in illiquid securities.

**4.9 Rebalancing**

Rebalancing the Board approved asset allocations should control risk over a long period of time. However, the CIO shall have the ability to make tactical shifts in asset allocations as deemed appropriate to increase risk-adjusted returns as long as such changes are within Board approved asset allocation ranges.

**4.10 Asset Management**

Investment of Retirement Fund assets will be delegated to Investment Managers, except in situations where the Board has determined that the CIO and Investment Staff have demonstrated the expertise and ability to achieve specific investment objectives internally at a better overall value to the Retirement Fund. Investment Managers should employ clearly defined investment strategies and demonstrate a sustainable competitive edge relative to their peers.

**4.11 Acknowledgement of Systematic Issues**

The Board has structured this Policy acknowledging that systematic issues exist in the current global financial system.



## **Section 5 Responsible Parties and Their Duties**

### **5.1 Prudent Investors**

All Service Providers will maintain a prudent investor profile, consistent with their fiduciary responsibility to invest the assets solely in the interests of the Retirement Fund's members and beneficiaries.<sup>10</sup>

### **5.2 Code of Ethics**

All Service Providers shall abide by all ethical requirements that apply to persons who have a relationship with the System as set forth in Indiana law<sup>11</sup> or the Board of Governance Manual. If the Service Provider or its agents violate any applicable ethical standards, the System may, in its sole discretion, terminate its agreement immediately upon notice to the Service Provider. In addition, the Service Provider may be subject to penalties under Indiana law.<sup>12</sup>

All parties are compelled to promptly report any acts that create a conflict of interest or could be construed as a violation of Indiana law or the Board of Governance Manual. Such report shall be in writing to the System's Compliance Officer, CIO, or ED. If the issue in question involves the System's Compliance Officer, CIO, or ED, then the Service Provider may use an alternative method such as reporting the violation directly to the System's Director of Internal Audit. The obligation under this section extends only to those facts that the Service Provider knows or reasonably could know.

The Board recognizes that Service Providers have every right as citizens to participate in the political process both individually or corporately. However, the Board believes that it is inappropriate and improper for members of the Board to solicit contributions or support of specific candidates from any Service Provider or member of Staff. Any such incidents should be reported, in writing, by the Service Provider to the Compliance Officer or ED.

### **5.3 Delegated Authority**

The Board has delegated the day-to-day investment operations to the Staff, though oversight of the System's assets remains with the Board. The Staff is responsible for performing such duties consistent with this Policy and as otherwise directed by the Board. Included in this, the ED is authorized by the Board, pursuant to a recommendation of the CIO, to retain, manage, and terminate Investment Managers within each asset class as required to achieve the investment objectives of the Retirement Funds within the following limitations:

1. The initial investment made in a Portfolio described in Section 9 (Public Investment Guidelines), Section 11 (Commodities Investment Guidelines), and Section 14 (Risk Parity Investment Guidelines), may not exceed 3.0% of the market value of the Retirement Funds' assets, with notification provided to the Board at its subsequent meeting. Any additional allocations to the same Portfolio whose sum aggregate to an additional 3.0% or more of the Retirement Funds' assets must receive prior authorization from the Board;
2. The initial investment made in a Portfolio described in Section 10 (Private Equity Investment Guidelines), Section 12 (Real Estate Investment Guidelines), and Section 13 (Absolute Return Investment Guidelines), may not exceed 0.75% of the market value of the Retirement Funds' assets, with notification provided to the Board at its subsequent meeting. Any additional allocations to the same Portfolio whose sum aggregate to an additional 0.75% or more of the Retirement Funds' assets must receive prior authorization from the Board;

3. Reducing assets under management, including full termination of a Portfolio, may not exceed 4.0% of the market value of the Retirement Funds' assets, with notification provided to the Board at its subsequent meeting. A Portfolio, however, may be terminated with the agreement of the ED and CIO for any level of assets if such removal is deemed necessary to protect the Retirement Funds' assets.

An allocation change may only exceed the limits described in this section with the prior authorization of the Board. Approval authority set forth in this Policy shall be reviewed upon the departure of either the ED or CIO, to consider the suitability of this investment authority delegated by the Board.

In addition to the responsibilities outlined above, the following parties also have separate responsibilities and duties to the System.

### **5.3.1 Board of Trustees**

1. Approve the overall mission, strategic plan, and objectives of the System;
2. Adopt an Investment Policy Statement, including an asset allocation according to prudent investor standards;
3. Exercise the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims;
4. Operate with a duty of undivided loyalty, and must be impartial in the exercise of such duty, to the members of each Retirement Fund, as Retirement Fund assets must be used for the exclusive benefit of such Retirement Fund's members and their beneficiaries;
5. Approve and review the engagement of Service Providers;
6. Evaluate the Retirement Fund's performance and compliance with this Policy and applicable state and federal laws;
7. Evaluate performance of the Staff and Consultant; and
8. Delegate any permitted responsibilities or duties to the Staff.

### **5.3.2 Investment Committee**

1. Examine externally managed portfolios, individual investments, correlation among portfolios, and such other matters for the purpose of understanding, measuring, controlling, monitoring, and reporting investment exposure;
2. Review Investment Manager selections under consideration by the Staff, as well as reductions or increases in allocations;
3. Examine existing Investment Managers, Consultants and Custodians;
4. Review requests from Investment Managers for waivers from requirements of their Management Agreements and/or this Policy;
5. Review potential termination recommendations prepared by the Staff;
6. Review brokerage executions, as well as portfolio transitions and the effectiveness of the transition managers;
7. Review internal investment procedures and external Investment Manager guidelines;
8. Review Staff's implementation of risk mitigation strategies, tools, and procedures;
9. Review the System's rebalancing policy, securities lending program, proxy voting policy, and potential securities litigation;
10. Assist with establishing procedures for the methodology and frequency of review of:
  - a. Retirement Fund's asset class and Portfolio performance;
  - b. Performance attribution;

- c. Allocation within asset classes; and
  - d. Risk levels.
11. Report back to the Board as appropriate;
  12. Conduct periodic roundtable discussions of the economic and investment environment and the System's investment strategy;
  13. Review potential investment initiatives, as well as newly-implemented initiatives and other programs managed by the Investment Staff;
  14. Request research and reports from Staff; and
  15. Direct any permitted responsibilities or duties to the Staff.

### **5.3.3 Executive Director**

1. Supervise the investment operations by ensuring that the CIO and Investment Staff invest assets in accordance with the Board's policies and internal controls that are in place to safeguard the System's assets;
2. Expend money, including income from the assets, for effectuating the System's purposes;
3. Provide regular reports to the Board;
4. Negotiate and execute all contracts, agreements and memorandums of understanding in accordance with the System's Procurement Policy and this Policy;
5. With the advice and counsel of the CIO and Consultant, take prudent actions that are deemed essential to protect the assets of the System with any emergency actions taken being promptly notified to the Board; and
6. Perform and/or delegate any and all additional duties assigned by the Board.

### **5.3.4 Chief Investment Officer**

1. Monitor and manage the investment operations of the System to ensure compliance with Board policies;
2. Regularly provide updates and recommend modifications to this Policy to the Board;
3. Implement agreements and disburse funds to the selected Investment Managers at prudent and approved commitment levels;
4. Advise the Board and ED on investment matters;
5. Keep the Board and ED apprised of situations which merit their attention; and
6. Supervise and/or delegate to the Investment Staff.

### **5.3.5 Investment Staff**

1. Regularly provide updates and recommend modifications to this Policy;
2. Source and evaluate prospective Portfolios for the System;
3. Monitor and review Investment Managers for adherence to strategies, objectives and guidelines; and
4. Regularly evaluate and advise the Board on the performance of the Consultant.

### **5.3.6 Consultants**

1. Regularly review and advise the Board and Staff on investment policies related to the System;
2. Assist Board and Staff in establishing appropriate asset allocation targets and ranges;
3. Provide the Board and Staff with relevant, reliable and timely research and information requests to fulfill their responsibilities;
4. Assist Staff in conducting Investment Manager and/or Portfolio due diligence and in negotiating business terms and appropriate structural incentives;

5. Monitor and review Investment Managers on an ongoing basis, for adherence to objectives and guidelines and, if appropriate, recommend any changes to the Board and Staff; and
6. Provide a third party perspective and oversight to the System's assets.

## Section 6 Asset Allocation

The asset allocation of the Retirement Funds is expected to meet the Target Rates of Return over a long period of time while minimizing risk. The Board will evaluate the asset allocation periodically, after reviewing considerations and recommendations from the Staff and Consultant, and conduct a formal asset liability study no less frequently than every three years.

### 6.1 Formal Asset-Liability Study

To guide their selection of the optimal target allocation and target range for each asset class, the Board shall consider the following key factors:

1. Expected long-term return, risk, correlations, liquidity constraints, and transaction costs of various global public and private asset classes;
2. Key risks affecting Retirement Fund assets, such as equity risk, credit risk, interest rate risk, and inflation risk;
3. Projected cash flow and liquidity needs of the Retirement Funds;
4. Projected liabilities of the Retirement Funds;
5. Projected funded status of the Retirement Funds; and
6. Contribution needs of the Retirement Funds.

### 6.2 Strategic Asset Allocation

The following asset classes, target allocations, and allowable ranges were approved by the Board on October 28, 2011 based on a formal asset-liability study and shall remain in place until revised by the Board.

Table 6.2

Global Asset Classes	Target Allocation	Target Range
Public Equity	22.5%	20.0% to 25.0%
Private Equity	10.0%	7.0% to 13.0%
Fixed Income – Ex Inflation-Linked	22.0%	19.0% to 25.0%
Fixed Income – Inflation-Linked	10.0%	7.0% to 13.0%
Commodities	8.0%	6.0% to 10.0%
Real Estate	7.5%	4.0% to 11.0%
Absolute Return	10.0%	6.0% to 14.0%
Risk Parity	10.0%	5.0% to 15.0%

## **Section 7 Retirement Funds' Performance Evaluation**

### **7.1 Introduction**

The Board recognizes the need to evaluate the investment performance of the CIO and Investment Staff who have been delegated the duty to invest the Retirement Funds' assets, and further recognizes that the CIO and Investment Staff are under a fiduciary duty to the Retirement Funds.

### **7.2 Performance Evaluation Factors**

The key factors to be used in the analysis of the investment performance of the Retirement Funds include:

1. Net of fees, 10-year rolling annual rate of return equal to the target rate of return for the Retirement Funds.
2. Net of fees, 1- year and 3-year rolling investment rate of return of the Retirement Funds, no less than a weighted average of benchmark indices which best describe the Retirement Funds' asset allocation.
3. Net of fees, 3- year and 5-year Sharpe Ratio of the Retirement Funds, no less than a weighted average of benchmark indices' Sharpe Ratio which best describe the Retirement Funds' asset allocation.

## Section 8 Risk Management

The Board believes that a central focus of investing is to control risks that may reduce the probability of achieving the Target Rates of Return. The Board sets the framework for risk management through this Policy, and within it, identifies three critical parts:

1. Risk Measurement
2. Risk Monitoring
3. Risk-Adjusted Investment Management

### 8.1 Risk Measurement

The Board has developed a broad set of managerial, advisory, and consulting relationships which provide a flow of information that enables the CIO and Investment Staff to effectively analyze market conditions, research investment opportunities, monitor Investment Managers, and manage the System's assets. The CIO and Investment Staff are responsible for selecting, maintaining, and enhancing the risk management tools used to provide analysis that inform and support the investment process of the System and report on the System's investment risks and associated returns to the Board as appropriate.

### 8.2 Risk Monitoring

The Board believes that when building the most diversified investment portfolio it is critical to think in terms of risk allocation, not capital allocation. Risk allocation should be based on a fundamental understanding of the relationship between asset classes and economic environments. As a result, the Board, CIO, and Investment Staff will regularly monitor the Systems' success in achieving the targeted risk diversification that is inherent in the approved asset allocation stated in Section 6 (Asset Allocation). The following list is a sample set of portfolio risk exposures that will be monitored on an absolute and relative basis; this list is not intended to be exhaustive.

Table 8.2.1

Market Risk Factors
Equity Risk
Nominal Interest Rate Risk
Credit Risk
Inflation Risk

The Board recognizes that there are a number of other risks that naturally exist in a global investment portfolio. As a result, the Board, CIO, and Investment Staff will regularly monitor the performance and composition of the System's assets and make favorable adjustments that seek to improve overall risk-adjusted performance. The following table contains a sample set of strategic risk factors that will be monitored on an absolute and relative basis; this list is not intended to be exhaustive.

Table 8.2.2

Strategic Risk Factors	Descriptions
Issuer Risk	Direct exposure to specific entity or company
Country Risk	Direct exposure to specific countries and currencies
Geographical Risk	Exposure to regions of the U.S. or countries outside the U.S.
Credit (Quality) Risk	Segmentation of investments by credit rating
Counterparty Risk	Risk of a counterparty default
Debt Refinancing Risk	Measured by the concentration of debt maturities by year.

Liquidity Risk	Risk associated with an inability to buy or sell an investment due to contractual commitments, high transaction costs, or the time required to find a seller or buyer
Sector Risk	Risk that many of the investments in one sector fall in price at the same time due to an industry-wide event
Vintage Year Risk	Risk of an investment vintage year occurring at the peak or bottom of a market cycle
Business Risk	Overexposure to a specific Investment Manager or Investment Manager's style

### 8.2.1 Investment Manager Concentration Limit

The Board recognizes that allocating a large percentage of assets to a single Investment Manager may introduce increased business or liquidity risk to the System. Consistent with the long-term goal of enhancing return while reducing risk, the Board has placed an upper limit on the concentration of assets placed with an Investment Manager.

No Investment Manager shall manage more than 10% of the System's assets in actively managed Portfolios at the time of funding. Through capital appreciation and additional purchases, no Investment Manager shall be allowed to manage in excess of 15% of the System's assets in actively managed Portfolios without Board approval.

No Investment Manager shall manage more than 15% of the System's assets in passively managed Portfolios at the time of funding. Through capital appreciation and additional purchases, no Investment Manager shall be allowed to manage in excess of 20% of the System's assets in passively managed Portfolios without Board approval.

No Investment Manager shall manage more than 25% of the System's assets in a combination of actively and passively managed Portfolios.

### 8.2.2 Foreign-Exchange Risk Management

The objective of this foreign-exchange ("F/X") risk management policy is to effectively manage the Retirement Funds' performance volatility associated with foreign currency risk. F/X risk is the possibility of a negative currency return as a result of adverse movements in foreign exchange rates. The CIO, with the advice and counsel of the Consultant, is charged with assessing the F/X impact on the Retirement Funds' assets based on overall exposure and the resulting impact on incremental risk and return.

Unless otherwise approved by the Board, it is the policy of the Board that management of F/X exposure may be only implemented (1) by an Investment Manager on its Portfolio when the Investment Manager possesses recognized F/X experience or (2) by an overlay manager or other third-party expert ("F/X Overlay Manager") for a specific Portfolio or the Retirement Funds. Any F/X Overlay Manager will not be classified under a specific asset class; rather, would be aggregated at the Retirement Funds' level. Any hedging strategy recommendations will be presented to the Board for approval and incorporated into the benchmark. The management and implementation of Board-approved F/X hedging activities will be implemented by the CIO, with the advice of the ED and the Consultant.

### 8.2.3 Leverage

The System is authorized to allow the following prudent uses of leverage by Investment Managers who possess recognized expertise with the allowed tools as follows:



1. Derivative overlay strategies in accordance with the asset allocation and risk parameters of this Policy;
2. Short sales in accordance with this Policy;
3. Foreign currency hedging in accordance with this Policy;
4. Embedded leverage within the Retirement Fund's total limited partnership investments; and
5. Collateralized funding operations including securities lending, repurchase, and reverse repurchase agreements.

#### **8.2.4 Operations Risk Management**

1. Procedures: A procedures manual shall be maintained by the Investment Staff that provides detailed steps on how to complete the essential tasks of the investment department.
2. Custodial Bank: The Investment Staff shall conduct on-site due diligence to review the operational controls set in place by all custodial banks. The Investment Staff will also consider the extent of remedies provided by the Custodian and its overall ability to fulfill its commitments should operational failures occur.
3. Investment Managers: The Investment Staff shall regularly conduct on-site due diligence to review the operational controls and investment activities conducted by all Investment Managers. The Investment Staff will also regularly monitor each Investment Manager and its portfolio through periodic update calls.

#### **8.2.5 Legal Risk Management**

The Staff will exercise diligence to ensure that all contracts are legally binding and enforceable in a suitable venue. When appropriate, the Staff will seek the advice the System's legal department and shall bring all investment agreements for review prior to execution of such agreements.

### **8.3 Risk-Adjusted Investment Management**

Given the volatility and complexity of global markets, the Board believes that timely implementation of risk management efforts is of paramount importance to maintaining an optimal portfolio. As a result, the CIO and Investment Staff will regularly review the risk parameters to maintain the risk profile implied by the Board approved asset allocation.

#### **8.3.1 Rebalancing**

The CIO and Investment Staff will be charged with monitoring individual asset classes and rebalancing as necessary to keep the Retirement Funds within the Board approved asset allocation ranges. Asset classes beyond the target range shall be rebalanced back to the midpoint between the target allocation and outer edge of the target range. However, the CIO and Investment Staff shall have the ability to make tactical shifts in portfolio allocations as deemed appropriate to increase risk-adjusted portfolio returns as long as movements are within Board approved asset allocation ranges.

#### **8.3.2 Active Risk**

The introduction of active investment management may potentially cause unintended risks at the asset class level and equate to significant deviations from benchmark returns. Active risk refers to the segment of risk in the portfolio that is due to active management decisions made by Investment Managers. It does not include any risk that is merely a function of passive index exposure. Active risk is commonly referred to as tracking error. The CIO and Investment Staff will monitor active risk within each asset class and report any material changes to the Board.

## Section 9 Public Investment Guidelines

### 9.1 General Guidelines

Each Investment Manager retained to manage a portion of the System's publicly-traded assets ("Public Investment Manager") shall be aware of and operate within this Policy and Indiana law. Subject to the guidelines in this Policy and its contract with the System, any Public Investment Manager retained by the System is to have full discretionary investment authority over its Portfolio.

Public Investment Managers shall observe the following rules:

1. Specific Limitation on Holdings: The purchase of securities of any one issuer (with the exception of the US Government and its agencies) shall be limited to an initial cost of 10% or two times the benchmark weight of the market value of the Portfolio, whichever is greater. Through capital appreciation and additional purchases, no such holding should exceed 15% of the market value of the total holdings of the Portfolio, unless the CIO approves an exception.
2. Securities Trading: Each Public Investment Manager is to immediately send copies of each transaction record to the System's Custodian(s), and any designated agent of its Custodian(s). Each Public Investment Manager is further required to reconcile the account(s) under its management on a timely basis each month with the Custodian(s). Each Public Investment Manager is responsible for complying fully with the System's policies for securities trading and selecting brokerage firms as stated in Addendum 3 (Trading and Brokerage Policy).
3. Acknowledgments of Registration: Each Public Investment Manager retained by the System must be a person, firm, or corporation registered as an investment adviser under the Investment Advisors Act of 1940; a bank as defined in such Act; or an insurance company qualified to do business in more than one state, and must acknowledge its fiduciary responsibility in writing. SEC-registered firms must provide the Investment Staff a copy of its Form ADV Part II on an annual basis.
4. Acknowledgments of Compliance: All Public Investment Managers shall confirm at least annually that they have complied with this Policy and acknowledge in writing their receipt of this Policy, any updated versions of this Policy, and their agreement to abide by the terms. All Public Investment Managers shall have an affirmative duty to bring suggestions for modification or change of this Policy to the Staff.
5. Insurance Requirements: Each Public Investment Manager will obtain insurance coverage in an appropriate amount as customary in the industry. The insurance coverage must cover losses resulting from a breach of fiduciary duty in providing or failing to provide professional services to the System, losses due to a mistaken or negligent act or omission, and losses resulting from acts of dishonesty and theft. Each Public Investment Manager shall annually provide written evidence of such coverage.
6. Conflicts of Interest: A Public Investment Manager through its actions on behalf of the System, shall not invest any part of its Portfolio with itself or with any person or entity with which or in which it has any economic interest, unless such Public Investment Manager receives prior written approval from either the CIO or ED or with the exception of passive index funds where the Public Investment Manager is a constituent of the index. This does not preclude Public Investment Managers from investing personal assets alongside System assets in a manner that is

not in conflict with their fiduciary obligation to the System. This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest.

In addition, no Public Investment Manager, through its actions on behalf of the System, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated entity, unless such Public Investment Manager receives prior written approval from the CIO or ED.

7. Commingled and Pooled Investments: In accordance with Indiana law<sup>13</sup>, Public Investment Managers may, with the express written permission of the CIO, invest in commingled or pooled funds that otherwise comply with the guidelines in this Policy.
8. Ethics Policy: Public Investment Managers shall provide a copy of their respective ethics policy to the System.
9. Correction of Violations: In the event a violation of the guidelines in this Section occurs, unless otherwise approved by the CIO or ED in writing, based upon a determination of the best interests of the System, the violation:
  - a. Shall be corrected as soon as practicable following detection and notification, unless the CIO or ED has agreed in writing to a correction which does not require immediate action;
  - b. Shall result in reimbursement to the System by the Public Investment Manager for any losses which may have been incurred due to the violation;
  - c. Shall result in the System retaining any gains which are realized from the violation; and
  - d. May be grounds for termination.
10. Prohibited Securities and Transactions: The System is prohibited from engaging in any transaction that would be a “prohibited transaction” under the Internal Revenue Code Section 503 or be prohibited under Indiana law. The following transactions shall be prohibited unless otherwise approved by the CIO or ED in writing:
  - a. Repurchase agreements that may create explicit leverage in the Portfolio (Repurchase agreements such as cash equivalents are permitted);
  - b. Purchases of letter or restricted securities; and
  - c. Direct purchases of physical commodities (Swaps and instruments that constitute a security, or authorized derivatives are permitted).
  - d. Securities identified as prohibited securities under the Indiana Sudan and Terror legislation. (IC 5-10.2-9 Chapter 9. Sudan Divestment; IC 5-10.2-10 Chapter 10. Divestment from States the Sponsor Terror).
11. Credit Quality: The aggregate public fixed income portfolio shall maintain an average credit quality of investment grade.

## 9.2 Reporting Procedures

The Board recognizes the need to evaluate the investment performance of the Public Investment Managers who have been delegated the duty to invest the System’s assets, and further recognizes that Public Investment Managers are under a fiduciary duty to the System. The Investment Staff shall evaluate the performance of each Public Investment Manager pursuant to the procedures outlined below.

Periodic reports from the Investment Staff should supply critical information on a continuing basis, such as the comparative investment performance, portfolio positions relative to stated strategy, and other perspectives of the Portfolios as requested by the Board. The reports should be examined to determine whether investment policy guidelines are being followed and if the Public Investment Managers have met their established objectives. At least annually, the Investment Staff will confirm that each Public Investment Manager has complied with the Investment Policy Statement and contract guidelines.

Public Investment Managers will be expected to comply with the CFA Institute's Global Investment Performance Standards (GIPS) in calculating and reporting investment performance. The use of a time-weighted return formula (which minimizes the effect of contributions and withdrawals) should be utilized. The services of an outside, independent consulting firm providing performance measurement and evaluation may be retained.

The Public Investment Manager shall:

1. Prepare a report to be delivered to the Investment Staff which includes those items requested by the System, in the format requested by the System. These reports shall be delivered as described below:
  - a. Monthly
    - i. A review of recent and anticipated investment activities;
    - ii. Investment results of Portfolio;
    - iii. A summary of the risk characteristics of the Portfolio (e.g. country exposure vs. benchmark); and
    - iv. Other matters as requested by the Investment Staff from time to time.
  - b. Quarterly
    - i. Any changes in the firm's structure, professional team or product offerings;
    - ii. An analysis of the major changes which have occurred in the investment markets and in the Portfolio in particular since the last report;
    - iii. A summary of other key characteristics of the Portfolio; and
    - iv. Other matters as requested by the Investment Staff from time to time.
2. Meet with the Investment Staff at least annually to make a presentation describing the professionals, the investment process employed for the Portfolio, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the Investment Staff.
3. Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Investment Staff and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
4. Advise the Investment Staff immediately and in writing if any of the following events occur within the Public Investment Manager's organization:
  - a. A change in staffing of key personnel;
  - b. A change in ownership or control (whether through acquisition, disposition, merger, consolidation, or otherwise) or in business focus of the Public Investment Manager;
  - c. Changes in philosophy or investment process that the Public Investment Manager was hired to implement;

- d. Involvement in material litigation or fraud;
- e. Any investigation or action by a federal or state regulatory body;
- f. Loss of a significant client relationship(s); or
- g. Any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Public Investment Manager.

The CIO or ED reserves the right to suspend or terminate any Public Investment Manager at any time.

### **9.3 Performance Evaluation**

The Investment Staff shall review the performance of each Public Investment Manager's Portfolio at least quarterly. Evaluation standards considered may include the following:

1. Gross of fee performance rates of return ranking at or above the median of an appropriate universe or style peer group of Public Investment Managers over quarter-to-date, year-to-date, one year, three year, five year, and since inception time periods;
2. Net of fee performance rates of return exceeding an appropriate market index benchmark, over quarter-to-date, year-to-date, one year, three year, five year, and since inception time periods;
3. Sharpe ratio exceeding an appropriate market index benchmark over quarter-to-date, year-to-date, one year, three year, five year, and since inception time periods;
4. Information ratio compared to the expected information ratio over quarter-to-date, year-to-date, one year, three year, five year, and since inception time periods; and
5. Tracking error of the performance rates of return of the Public Investment Manager compared to the expected tracking error over one year, three year, five year, and since inception time periods.

Further, the Investment Staff shall review the resources and management of the Public Investment Manager and its Portfolio at least annually. Evaluation standards considered may include the following:

1. Staffing of personnel;
2. Organizational structure;
3. Changes in investment strategy and developments in capital markets as they impact strategy;
4. Changes in resources;
5. Stability of business;
6. Changes in product offerings;
7. Performance against relevant peer groups;
8. Client service; and
9. Conformance to this Policy.

### **9.4 Watch List**

The purpose of the "Watch List" is to provide an objective plan to assist the CIO and Investment Staff in determining any action that is warranted when a Public Investment Manager is not meeting expectations. The Watch List shall be presented to the Board on a quarterly basis with more frequent updates as needed to discuss material changes.

#### **9.4.1 Conditions for Placement on the Watch List**

Conditions considered in determining whether a Public Investment Manager may be placed on the Watch List include, but are not limited to, the following:

1. Quantitative

- a. Performance
    - i. Gross of fee performance rates of return rank in the bottom quartile of an appropriate universe or style peer group of Public Investment Managers over a three year and/or five year period; and
    - ii. Net of fee performance rates of return less than an appropriate market index benchmark over a three year and/or five year time period.
  - b. Risk-Adjusted Performance
    - i. Sharpe ratio of performance rates of return less than that of an appropriate market index benchmark over a three year and/or five year period; and
    - ii. Information ratio of performance rates of return less than the expected information ratio over a three year and/or five year period.
1. Qualitative
    - a. A change in staffing of key personnel;
    - b. A change in ownership or control (whether through acquisition, disposition, merger, consolidation, or otherwise) or in business focus of the Public Investment Manager;
    - c. Changes in philosophy or investment process that the Public Investment Manager was hired to implement;
    - d. Public Investment Manager involvement in material litigation or allegation of fraud;
    - e. Any investigation or action by a federal or state regulatory body;
    - f. Material client servicing problems;
    - g. Deterioration of financial condition; and
    - h. Any event which is deemed to adversely impact the management, professionalism, integrity or financial position of the Investment Manager.

The CIO will determine if a Public Investment Manager qualifies for the Watch List based on the Quantitative and Qualitative conditions listed above. A Public Investment Manager that is placed on the Watch List will be promptly notified and given a 10 business day response period to explain the issues that led to their placement on the Watch List. Additional actions could include Staff meetings with the manager or a formal interview of the manager by the Board. Investment Staff will work with the Public Investment Manager to outline expectations for what will facilitate its removal from the Watch List. The Public Investment Manager's willingness and ability to meet these expectations must be deemed adequate by the CIO and Investment Staff; otherwise, the Public Investment Manager may be terminated.

#### **9.4.2 Conditions for Removal from the Watch List**

Public Investment Managers that are formally placed on the Watch List will be given a period of up to six months to remedy the rationale for being placed on the watch list or adequately explain the rationale for violating these guidelines, to the satisfaction of the Board and Staff ("Review Period"). At the conclusion of this Review Period, the CIO, advised by the Investment Staff, will make a determination as to whether the Public Investment Manager should remain on the Watch List or be recommended for termination.

## Section 10 Private Equity Investment Guidelines

### 10.1 Statement of Purpose

The purpose of the Private Equity Program (“PE Program”) is to earn risk-adjusted returns in excess of public equity markets. The PE Program is also expected to decrease the volatility of the System’s assets through the diversification benefits of having lower correlations with other asset classes.

### 10.2 Description

Private Equity Investment Managers generate returns by investing in a universe of companies not typically available through the public markets. These investments have historically delivered returns that are higher than public markets while attempting to reduce risk through diversification.

The private equity market is highly sophisticated and specialized with respect to variety and types of investment structures. There exists major competition for deal flow on the part of both investors and general partners. To a great extent, market forces drive the bargaining of economic terms. Most investment vehicles are structured as commingled and often blind pool investment partnerships. The most common offering forms are equity private placements where the governing laws of the partnership agreement impose a passive role to the limited partner investors. These contractual arrangements are long-term in nature and provide the general partner or sponsor a reasonable time horizon to wisely invest capital, add value through intensive operational management, then realize the proceeds of such an investment. Moreover, terms of the partnership are proposed by the general partner and are critical to the economic incentives and ultimate net performance of the partnerships.

### 10.3 General Guidelines

To strengthen the diversification of the private equity investments, the following guidelines will be utilized in the Investment Staff's formulation of an annual investment strategy and plan for the PE Program:

1. Investment Structure: Staff may utilize the following investment vehicles within the PE Program: private limited partnerships; group trusts; limited liability companies; and co-investments alongside existing or potential general partners. Co-investment opportunities provide additional funding to specific investments being made by limited partnerships. In specific instances, the general partner can invite the limited partners to provide additional capital when an investment is of a size, which exceeds the PE Program’s diversification parameters.
2. Investment Timing Risks: Staff should limit the potential for any one investment to negatively impact the long-term results of the portfolio by investing across business cycles. Moreover, the PE Program must gain exposure to the array of financing stages by opportunistically exploiting the best investments at different stages of the business cycle. Staff may also consider purchasing secondary partnership interests to shorten the effective life of the partnership interest and positively impact the current and long term net return of the PE Program.
3. Industry Concentration: The PE Program will be exposed to companies in a variety of industries. Staff intends to diversify the PE Program across industries. For venture capital, however, it is recognized that opportunities may be most readily realized in a relatively small number of industries.

4. General Partner Diversification: Investment Staff will seek to work with a variety of general partners due to their specialized expertise in particular segments of the private equity market and deal flow sources.
5. Investment Size: No more than 15% of the PE Program's commitments shall be invested with any individual sponsor organization without Board approval. The PE Program is permitted to own up to 100% of any particular separate account subject to the sponsor limitation above. The PE Program's commitment to any partnership shall not represent more than twenty five percent (25%) of the total capital commitments to an individual partnership without board approval. International private equity investments shall not exceed 50% of the PE Program. However, if investments cannot be found that meet the Board's criteria for quality, expected return, and risk, the investment category should be de-emphasized until market conditions improve – commitments should not be made solely for the sake of diversification.
6. Alignment of Interests: Staff shall actively negotiate partnership agreements on behalf of the System with a prime directive to ensure that interests of the general partner are aligned with those of the System and supported by all other similar limited partners. This should include a competitive fee structure with participating interest in the investment for the commensurate risks being taken. Staff will also delineate between sweat and cash equity being committed by the general partner with an emphasis on the latter with respect to the preferred alignment tool.
7. Special Services: Due to the complex nature of alternative investment formats and the acknowledgement that private equity is a very high risk asset class, expert legal counsel will be retained by Staff on an as needed basis. The Staff or Consultant may periodically be required to engage specialized firms to investigate principals for integrity, ethical problems, tax-related issues, etc. prior to an investment. Specialized firms may also be engaged to manage and liquidate non-cash distributions from private partnerships.
8. Legal Confirmation: For each private equity commitment, legal counsel shall provide written confirmation that documentation has been satisfactorily completed prior to closing of any investment in the PE Program that involves negotiated System documentation.
9. Contract Terms: Contract terms will generally be ten (10) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that any individual option period or extension does not exceed five (5) years in duration. No contract shall obligate the System for a period in excess of fifteen (15) years. The System's general procurement policy as to contract terms is not applicable to these contracts.
10. Contract Conditions:
  - a. No contract with the System may contain any terms or provisions prohibited by Federal or Indiana law.
  - a. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.
  - a. In all contractual decisions, the System shall take into account the particularly sensitive nature of the PE Program and shall consider the competence, quality of product, experience, and timely performance of the vendors in order to promote and ensure security, fairness, and integrity in the procurement process.



#### **10.4 Performance Objectives**

The Board is committed to utilizing a global sourcing strategy in making partnership investment decisions. The PE Program will be evaluated against the median return for all private equity funds as measured by Venture Economics. Venture capital Investment Managers will be measured against the median venture capital return, buyout Investment Managers against the median buyout return, etc.

#### **10.5 Investment Selection Criteria**

In building the PE Program, the System's aim is to select the highest quality partnerships that will in turn offer a diversified private equity portfolio designed to outperform the targeted benchmark outlined above. The CIO, Investment Staff, and Consultant should consider, but not be limited to, the following attributes:

1. Quality and stability of the general partnership team;
2. Previous investment track record;
3. Proposed investment strategy;
4. Alignment of interest with the Limited Partners;
5. Legal and economic terms governing the partnership structure; and
6. Contribution to geographic and industry diversification.

The Board recognizes that investment opportunities requiring more immediate action may be presented which may enhance the long-term performance of the PE Program. Should such an investment opportunity arise, the Investment Staff and Consultant may request that the full Board convene between regularly scheduled meetings, via conference call, to review investments and approve proceeding with additional due diligence.

## Section 11 Commodities Investment Guidelines

### 11.1 Statement of Purpose

The purpose of the Commodities Program (“Commodities Program”) is to enhance the long-term risk-adjusted returns by preserving investment capital and lowering overall volatility. The Commodities Program should also act as a hedge against unanticipated inflation.

### 11.2 Description

Commodity Investments generate a return by investing in raw or primary products where asset prices move in direct response to changes in expected supply and expected demand. Commodity investments have historically delivered returns that are less correlated with equity and fixed income markets which may provide an opportunity to enhance returns and/or reduce volatility.

### 11.3 General Guidelines

1. Permissible Investment Types: Investments may include listed securities that have a high correlation to the Index, overlay exposures, and collateral investments, including but not limited to: futures contracts, forward contracts, swap agreements, structured notes, and options. Commodities Investment Managers may hold individual positions long, short, or a combination of both. The Commodities Program will be implemented through a combination of passive and active management in both liquid and illiquid structures.
2. Listing Requirements: Exchange-traded commodity futures, options, and other instruments may be traded on any exchange regulated by the Commodities Futures Trading Commission (“CFTC”) of the United States and/or the Financial Services Authority (“FSA”) of the United Kingdom.

For non-exchange traded derivatives, counterparty creditworthiness shall be at a minimum of “A3” as defined by Moody’s Investor Service, “A-” by Standard & Poor’s, and/or “A-” by Fitch. The use of unrated counterparties is prohibited unless such counterparty is a wholly-owned affiliate of a parent organization that guarantees payment and meets the above-noted counterparty creditworthiness standards.

3. Risk Controls: Derivative instruments may be standardized and exchange-traded (e.g., futures) and/or privately-negotiated and over-the-counter (e.g., swap agreements). Underlying risk exposures may be to cash commodities and/or commodity derivatives. Risk exposures for exchange-traded instruments shall lie with exchange clearinghouses and with approved counterparties for non- exchange-traded transactions.
4. Collateral Investment: The Commodities Program collateral investments shall only be invested in cash or government obligations used for future margin requirements, inflation linked bonds held for investment, a short term investment fund, or any receivable due from an approved counterparty to a commodity-related investment. The Board must approve any collateral investments not listed above.
5. Collateral Value: The market value of commodities collateral shall be maintained at 100% or greater of the net option-adjusted notional value of any commodities overlay exposure at the consummation of any new commodities overlay position. If the collateral market value falls below the net option-adjusted value of the overlay, the Investment Manager(s) shall adjust their

Portfolio at the earliest feasible opportunity to bring collateral value up to the notional value of the overlay.

#### **11.4 Performance Objectives**

The risk and return objectives for the Commodities Program, as noted below, should be assessed on a rolling three-year time horizon:

1. Target annual return (net of fees): 50% Dow Jones-UBS Commodity Total Return Index/50% S&P GSCI Total Return Index, plus 1 – 2%; and
2. Target annual volatility of performance returns (tracking error): 200 – 300bps.

#### **11.5 Investment Selection Criteria**

The CIO, Investment Staff and Consultant are responsible for overseeing the Commodities Program. The CIO, Investment Staff and Consultant shall also be responsible for sourcing and performing due diligence on commodity investment opportunities for the Commodities Program. The sourcing responsibilities are a result of an ongoing review of the Consultant database and Staff contacts. Each investment opportunity will be evaluated compared to other available investments and its risk/return characteristics.

Due diligence will cover all issues as appropriate as determined by Staff and Consultant and additional issues that may be relevant to the investment. Following completion of due diligence, a recommendation memorandum and materials outlining the investment will be distributed and presented to the CIO and ED for their review, comment and approval. Final documentation and funding will be the responsibility of Staff with the assistance of the Consultant and as appropriate, legal counsel.

## Section 12 Real Estate Investment Guidelines

### 12.1 Statement of Purpose

The purpose of the Real Estate Program (“RE Program”) is to generate attractive risk-adjusted returns by providing stable current income and preserving investment capital. The RE Program should also reduce volatility by providing a hedge against unanticipated inflation and through the diversification benefits provided by real estate investments.

### 12.2 Description

The global real estate investment universe can be divided into the following three (3) sectors:

1. Core
  - a. Stable and income producing with limited income volatility.
  - b. Operating, substantially leased office, retail, industrial or multi-family properties.
  - c. Generally have institutional qualities for size, physical attributes and location.
  - d. A high proportion of the total return should be generated from current income with a smaller portion of the total return generated from appreciation.
  - e. Target leverage for Core investments is generally limited to no more than 50% loan to value with comfortable debt service coverage ratios, depending on property type, cash flow coverage and interest rate environment. Exceptions will be considered based on characteristics of individual investments.
  - f. Core investments may include property types other than traditional Core investments when the cash flow or appreciation characteristics are similar to traditional Core property types .
  - g. Core investments have historically been accessed through the private real estate funds or separate accounts, although public market securities (discussed below) and certain low risk commercial mortgages (discussed below) will be classified as core to the extent they have investment attributes consistent with traditional core investments.
  
2. Value-Added
  - a. Generally core property types with an identifiable deficiency that can be corrected and converted to Core investments.
  - b. Office, retail, industrial or multi-family properties that have moderate risk associated with their investment.
  - c. The additional risk associated with Value-Added investments is generally a deficiency that is identifiable and correctable through leasing, re-development, management and/or recapitalization.
  - d. Value-Added investments may include property types other than traditional Value-Added investments when the risk/return characteristics are similar to traditional value added property types.
  - e. Target gross-of-fee total returns for Value-Added investments are at least 200 basis points per year higher than for Core investments.
  - f. Target leverage for Value-Added investments is up to 70% loan to value. Exceptions will be considered based on characteristics of individual investments .
  - g. Value-Added investments have historically been accessed through the private real estate funds or separate accounts, although public market securities (discussed below) and certain moderate risk commercial mortgages (discussed below) will be classified as Value-Added to the extent they have investment attributes consistent with Value-Added properties.

3. Opportunistic
  - a. Similar to Value-Added investments but with greater risk characteristics such as distressed assets, development, land and international properties.
  - b. Opportunistic investments can be comprised of any property sector. Opportunistic investments can include office, retail, industrial and multi-family with high-risk attributes. These high-risk attributes may include a combination of hotels, international and domestic non-performing loans, operating companies, development, land and distressed properties and other high-risk investments.
  - c. Target leverage for Opportunistic investments can be up to 80% loan to value at acquisition (property and portfolio level). Exceptions will be considered based on characteristics of individual investments.
  - d. Target gross-of-fee total returns for Opportunistic investments are at least 600 basis points higher than Core investments per year in order to compensate for the increased risk.
  - e. Opportunistic investments have historically been accessed through the private real estate funds, although non-U.S. public market securities (discussed below) and certain higher risk commercial mortgages (discussed below) will be classified as Opportunistic to the extent they have investment attributes consistent with Opportunistic investments.

### 12.3 General Guidelines

1. Investment Timing: The RE Program will endeavor to achieve any differences between the actual allocation and target allocation by averaging into the market over a three- to five-year period, thus avoiding any concentrated vintage year risks. The Policy ranges for the RE Program have been set with reasonably wide ranges in order to capitalize on market inefficiencies and attractive opportunities, while also maintaining a certain level of low-risk stability.

It is expected that the denominator used in calculating the ranges will be the total real estate allocation. As a result, it is possible that the RE Program will not be in compliance on an invested basis during the first several years as the initial allocations become invested.

Additionally, since many of the real estate investments will be private market investments in commingled funds, the RE Program will not have precise control over the exact investment targets. As a result, there may be instances where the RE Program's composition is outside the target ranges. In those cases, the Investment Staff and Consultant will work to rebalance the RE Program toward the target ranges. This process may take time due to the private market nature of real estate investments in commingled fund vehicles, many of which have broad investment mandates.

2. Sector Diversification: The RE Program shall consist of a minimum of 50% in low-risk investments that will be generally considered Core, but may be structured in the form of equity or debt and may be public or private securities. The remainder of the RE Program will not be tied to specific targets, but will be monitored regularly to maintain prudent levels of diversification, as determined by the CIO, Investment Staff and Consultant.

Table 12.3.1

Sector	Target Allocation Range
Core	50% - 100%
Value	0% - 50%
Opportunistic	0% - 40%

3. Investment Structure: Due to the size of the RE Program, the preferred investment structure is commingled funds. However, the RE Program may also consider direct or co-investment opportunities in cases where discounted fees and appropriate diversification can be achieved. Other investment structures that may be considered include public real estate securities or commercial mortgages.
  - a. Commingled Funds
    - i. Commingled funds are collective investment vehicles where investors pool capital alongside other investors. The commingled fund structure provides discretion to investment managers within the stated strategy and allows the investors in commingled funds to benefit from diversification that is greater than the System could achieve by acquiring properties on a direct basis through separate accounts. The commingled fund emphasis should enable the System to access top tier managers in various strategies and diversify the risk of the real estate portfolio across numerous funds, managers and strategies.
    - ii. The commingled funds shall be structured as limited partnerships, limited liability companies, private REITs, corporations or other investment vehicles.
  - b. Public Real Estate Securities.
    - i. Public real estate securities can be classified as Core, Value Added or Opportunistic as discussed herein.
    - ii. Public real estate investment trusts (“REITs”) and real estate operating companies (“REOCs”) are generally considered to have risk/return attributes consistent with core real estate.
    - iii. Daily pricing and public market trading provide liquidity. However, due to the small float and limited market capitalization of REITs and REOCs relative to the companies in other sectors, liquidity may come at a price.
    - iv. The emergence of the international public real estate securities market has broadened the universe to include Asia, European, Australian and North and South America property companies.
  - c. Commercial Mortgages
    - i. Commercial mortgages can be classified as Core, Value Added or Opportunistic as discussed herein. The attributes for commercial mortgages are summarized below.
    - ii. Commercial mortgage returns are sensitive to interest rates, spreads and credit quality. The duration of a commercial mortgage portfolio can be high due to potential yield maintenance pre-payment penalties.
    - iii. Commercial mortgages have bond-like risk/investment characteristics, with real estate serving as collateral.
    - iv. Investment in commercial mortgages can be accomplished through public or private market vehicles and can be investment grade (core) or non-investment grade (value-add or opportunistic).
    - v. The long-term expected return from mortgages, depending on the strategy, is 150-300 basis points over comparable treasuries or considerably higher for value added and opportunistic debt strategies.
4. Property Type Diversification: The RE Program shall seek diversification through investments in office, retail, multi-family, industrial and non-traditional categories such as hotels, self-storage, senior housing, student housing, medical office, land and other property types.

Table 12.3.2

Type	Target Allocation Range
Office	10% - 35%
Retail	10% - 35%
Multi-family	10% - 35%
Industrial	10% - 35%
Other*	0% - 35%

\* Hotel, land, self-storage, senior housing, etc.

5. Geographic and Economic Location Diversification: The RE Program shall seek to include investments diversified across various locations with different economic concentrations. It will be monitored on a regular basis and geographic diversification shall be achieved in a sufficient manner as measured by the professional judgment of the Investment Staff and Consultant.

Table 12.3.3

Location	Target Allocation Range
U.S. Markets	70% - 100%
Non-U.S. Markets	0% - 30%

6. Investment Manager Diversification: The RE Program shall utilize various Investment Managers for real estate. The RE Program will limit the amount committed to one Investment Manager to no more than twenty percent (20%) of the total real estate allocation.
7. Vintage Year Diversification: To avoid excessive exposure to any one real asset cycle, the RE Program shall not commit more than 30% of the total real estate allocation for investment during any one calendar year.
8. Leverage: The System recognizes that leverage is an inherent component of real estate investments and the use of leverage can be an effective means to increase overall returns from time to time on a risk-adjusted basis. There will be a limit of 60% loan to value of the RE Program. This limit will be derived from the values reported by the Investment Managers. Should the leverage limit be exceeded, the Investment Staff and Consultant will develop a plan to rebalance the RE Program in order to comply with the target leverage percentage. All leverage will be secured through Portfolios. Recourse debt to the System is not permitted.
9. Investment Size: The RE Program will be diversified among a variety of private and public market investment types in order to reduce the volatility of real estate returns and the risk of loss of capital. The System shall not invest more than 20% of the total real estate allocation in public real estate securities and shall not invest more than 50% of the total real estate allocation in commercial mortgages. These structures may be invested in either commingled funds or separate account formats. The maximum investment size for any single Portfolio shall be limited to fifteen percent (15%) of the total RE Program. Also, the RE Program shall limit the investment size to any commingled Portfolio to twenty-five percent (25%) of the total assets of such commingled Portfolio.

## 12.4 Performance Objectives

Investment Managers will be expected to comply with the CFA Institute's Global Investment Performance Standards (GIPS) and the National Council of Real Estate Investment Fiduciaries (NCREIF) in calculating and reporting investment performance. The use of a time-weighted return formula should

be utilized. The services of an outside, independent consulting firm providing performance measurement and evaluation may be retained.

The following return objectives shall be viewed on a long-term basis:

1. Absolute Return (net of fees): the absolute return objective is a real rate of return (adjusted for inflation) of five percent (5%); and
2. Relative Return: Private real estate investments are expected to generate returns in excess of the NCREIF Open End Diversified Core Equity Index (“NCREIF ODCE”), net of investment management fees. Public securities investments are expected to generate returns in excess of the European Public Real Estate Association National Association of Real Estate Investment Trusts (“EPRA NAREIT”) Global Securities Index, net of investment management fees. For U.S. securities mandates, the EPRA NAREIT US Sub-index shall be utilized as the return benchmark.

### **12.5 Investment Selection Criteria**

The CIO, Investment Staff and Consultant are responsible for overseeing the RE Program. The CIO, Investment Staff and Consultant shall be responsible for sourcing and performing due diligence on real estate investment opportunities for the RE Program. The sourcing responsibilities are a result of an ongoing review of the Consultant database and Staff contacts. Each investment opportunity will be evaluated compared to other available investments and its risk/return characteristics.

Due diligence will cover all issues as appropriate as determined by Staff and Consultant and additional issues that may be relevant to the investment. Following completion of due diligence, a recommendation memorandum and materials outlining the investment will be distributed and presented to the CIO and ED for their review, comment and approval. Final documentation, closing and funding will be the responsibility of the Investment Staff with the assistance of the Consultant and as appropriate, legal counsel.



## Section 13 Absolute Return Investment Guidelines

### 13.1 Statement of Purpose

The purpose of the Absolute Return Strategies Program (“ARS Program”) is to enhance the long-term risk-adjusted returns of the Retirement Fund by providing diversification benefits, preserving capital, and reducing volatility. The Staff believes that these objectives have a higher probability of being met if the ARS Program is constructed with the appropriate diversification among strategies and Portfolios, and is properly aligned with the System’s objectives.

### 13.2 Description

Absolute return strategies (“ARS”) generate returns by exploiting mispricing and inefficiencies in global capital markets, while attempting to reduce exposures to primary market factors (e.g., interest rates and equities) through various hedging techniques. These strategies have historically delivered returns that are less correlated with equity and fixed-income markets than traditional investment strategies.

### 13.3 General Guidelines

1. Investment Structure: Direct investing in ARS requires sophisticated risk management systems, operational infrastructure, trading capabilities and specialized investment expertise and may also involve the use of leverage, short selling, sophisticated hedging techniques and derivative instruments. Therefore, the ARS Program should be implemented by placing assets in limited liability vehicles—to protect the Retirement Funds from losing more than its invested capital—under the discretion of experienced Investment Managers. These Investment Managers, who may manage and operate direct hedge funds or funds of hedge funds (FoHF), typically charge management and incentive fees, that align the interests of investors with the performance of the managers.
2. Investment Timing: These guidelines are based on the ARS Program being fully funded. As a result, during funding or transition phases, the percentages shown in Table 13.1 may be temporarily breached.
3. Corrective Action: To the extent that the ARS Program exceeds any of the established guidelines discussed in this Section, the CIO, Investment Staff, and Consultant should take corrective action expeditiously to bring the portfolio back into compliance once a breach has been identified. The results of these corrective actions may not be immediately evident given the relatively illiquid nature of hedge fund vehicles.
4. Strategy Diversification: The ARS Program should be diversified among strategies and funds that have different investment styles, without regard to the vehicle (direct hedge fund vs. FoHF), with the following table serving as a general guideline:

Table 13.1

Strategy	Target Allocation Range
Equity Long/Short	10% - 50%
Event Driven	10% - 50%
Relative Value	10% - 50%
Tactical Trading	10% - 50%

5. Investment Size: The ARS Program should generally be diversified as follows:
  - a. Maximum allocation to any one management firm: 30%
  - b. Maximum allocation to any single Direct fund: 30%
  - c. Maximum allocation to any FoHF: 50%
6. Liquidity: While investments in illiquid securities, or hedge funds with long lock-up periods, are often key to enhancing returns, the fully developed ARS Program shall target portfolio level liquidity of one (1) year, as measured by the asset-weighted average period for redemption of all underlying funds.
7. Opportunistic Investments: The ARS Program may also from time to time fund Portfolios that exhibit attractive risk/return profiles that do not offer the full diversification benefits of an absolute return mandate. These investments may be more directional strategies, which could carry more systematic exposure. As such, these Portfolios should be limited to 50% of the ARS Program at funding. The assets allocated under these mandates may deviate from the hedge fund structures as outlined above and will be evaluated against appropriate benchmarks.
8. Use of Derivatives: In the normal course of risk management, the ARS Program may elect to engage in derivatives transactions to offset, or hedge, unintended market exposures in underlying funds that remain in a lock-up period. To avoid counterparty risk, these transactions shall be executed through the use of listed options and futures traded on registered exchanges, whenever possible. Non-exchange-traded options, forwards, or swaps shall be deemed acceptable only if the counterparty is rated "A" or better by at least one of the Nationally Recognized Statistical Rating Organizations ("NSRSOs").
9. Contract Terms: No contract shall obligate the System for a period in excess of three (3) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that any individual option period or extension does not exceed three (3) years in duration.
10. Contract Conditions: No contract with the System may contain any terms or provisions prohibited by federal or Indiana law. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.

#### **13.4 Performance Objectives**

The aim in building the ARS Program is to select the highest-quality funds and vehicles to form a diversified portfolio capable of meeting targeted performance objectives. The risk and return objectives for the ARS Program, as noted below, should be assessed, quarterly, on a rolling three-year time horizon net of fees:

1. Target annual return (net of fees): 3-Month LIBOR + 400 basis points or the Target Rates of Return, whichever is higher;
2. Target annual volatility of performance returns (standard deviation): 7% or lower; and
3. Target Correlation: 0.7 or less to the Fund ex ARS Portfolio.

### **13.5 Investment Selection Criteria**

The Board is committed to utilizing a global sourcing strategy in making investment decisions. In pursuing this end, the Board has decided to implement a selection process for the ARS Program that is structured, disciplined and collaborative between Investment Staff and Consultant. As the Investment Staff and Consultant consider a broad set of investment opportunities, such process should result in the selection of higher quality Investment Managers and Portfolios from which to construct the ARS Program.

When selecting Investment Managers for the ARS Program, the Investment Staff and Consultant should consider, but not be limited to, the following attributes:

1. Investment Manager performance history;
2. Terms and structure of investment;
3. Fit with rest of ARS Program;
4. ARS Program investment relative to the size of the Portfolio, including capacity in the proposed vehicle;
5. Willingness to agree to side-letter provisions;
6. Investment strategy, including strategy overview, decision making, research process, and the growth history of assets under management;
7. Investment team, including staffing, key person dependency, turnover, compensation, and ownership;
8. Risk management, including philosophy, systems, asset/liability mismatch, risk exposure and leverage, position sizing, and preferential terms;
9. Operations and Infrastructure, including fund transparency, business philosophy, business complexity, processes, non-investment staffing, independence of net asset value calculation; and
10. Regulatory, compliance and financial statement review.

## Section 14 Risk Parity Investment Guidelines

### 14.1 Statement of Purpose

The purpose of the Risk Parity Program (“RP Program”) is to deliver consistent and high risk-adjusted rates of return as a standalone investment through the allocation of capital in a way that equalizes risk across a set of potential macro-economic environments. Overall, the RP Program should improve diversification and economic environmental balance, and therefore, minimize the likelihood of severe drawdowns.

### 14.2 Description

The Board understands that diversification goes beyond the concept of capital-based allocations among different asset classes. To create a truly well-diversified portfolio, one must consider how various asset classes have historically performed under different economic environments, and appropriately weigh them from a risk-budget perspective.

Risk Parity aims at creating a well-balanced portfolio that is capable of delivering consistent and high risk-adjusted returns in several macro-economic environments. It rests on the following key tenets:

1. Over a full market cycle, most asset classes carry a risk premium, and by investing in them, investors expect to earn a return higher than that offered by cash instruments.
2. The return of a particular asset class is proportional to its risk over long periods of time (i.e. different asset classes have similar Sharpe Ratios).
3. The main drivers of returns are growth and inflation factors, and certain asset classes perform better than others depending on the particular combination of such factors the economy is facing.

### 14.3 General Guidelines

1. Investment Structure: Direct investing in Risk Parity strategies requires sophisticated risk management systems, operational infrastructure, trading capabilities, and it may also involve the use of leverage. Consequently, the RP Program should be implemented by placing assets in commingled funds under the discretion of experienced Investment Managers.
2. Investment Manager Concentration: The RP Program shall be a multi-manager program utilizing differentiated Investment Managers. No more than 50% of the funds dedicated to Risk Parity shall be placed with any single Investment Manager.
3. Investment Timing: During funding or transition phases, asset allocation percentages may be breached and the RP Program may not be fully diversified. To the extent that the RP Program exceeds any of the established guidelines discussed in this Policy, the CIO, Investment Staff and Consultant should take corrective action expeditiously to bring the RP Program back into compliance once a breach has been identified.
4. Contract Conditions: No contract with the System may contain any terms or provisions prohibited by federal or Indiana law. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.

#### 14.4 Performance Objectives

The risk and return objectives for the RP Program, as noted below, should be assessed on a rolling three-year time horizon:

1. Target annual return (net of fees): 7%; and
2. Target annual volatility of performance returns (standard deviation): 10% - 12%.

#### 14.5 Investment Selection Criteria

When selecting Investment Managers for the RP Program, the CIO, Investment Staff and Consultant should consider, but not be limited to, the following attributes:

1. Investment Manager performance history;
2. Terms and structure of investment;
3. RP Program investment relative to the size of the Portfolio, including capacity in the proposed vehicle;
4. Willingness to agree to side-letter provisions;
5. Investment strategy, including strategy overview, decision making, research process, and assets under management growth history;
6. Investment team, including staffing, key person dependency, turnover, compensation, and ownership;
7. Risk management, including philosophy, systems, asset/liability mismatch, risk exposure and leverage, position sizing, and preferential terms;
8. Operations and Infrastructure, including fund transparency, business philosophy, business complexity, processes, non-investment staffing, independence of net asset value calculation; and
9. Regulatory, compliance and financial statement review.

## **Addendum 1 Guidelines for the Custodian**

### **1.1 Custody of System's Assets**

The System's assets must be held by a bank or trust company under a custodial agreement or agreements.<sup>14</sup> The Custodian must be domiciled in the United States and approved by the Board to (1) act in a fiduciary capacity and (2) manage custodial accounts on behalf of the System.<sup>15</sup> Income, interest, proceeds of sale, materials, redemptions, and all other receipts from securities and other investments which the Board retains for the cash working balance shall be deposited with the Custodian as authorized by the Board.<sup>16</sup>

### **1.2 Guidelines for the Custodian**

The Board recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records. The Custodian is a fiduciary as to the assets placed with them by the System. The following custodial responsibilities have been identified by the Board:

1. Provide complete custody and depository services for the designated accounts;
2. Provide for prompt investment of any cash;
3. Implement in a timely and effective manner the investment actions as directed by the Investment Manager(s);
4. Collect and receive all income and principal realizable and properly report transactions in periodic statements;
5. Provide monthly and annual accounting statements as well as on-line access accounting for the System, including all transactions; these should be based on accurate security values both for cost and market value. These reports should be provided within a time frame acceptable to the Board;
6. Report to the Staff situations where security pricing is either not possible or subject to considerable uncertainty;
7. Distribute to the Investment Manager(s) in a timely manner all proxy voting materials;
8. Provide assistance to the Board and Staff, to complete such activities as the annual audit, transaction verification and other issues;
9. As requested by Board or Staff, provide performance measurement and portfolio analytics for the Fund, consistent with CFA Institute Global Investment Performance Standards (GIPS);
10. When directed by the Board, and pursuant to a separate, written agreement for securities lending service, implement, in a fair and equitable manner, a securities lending program for the System, and report fully on all aspects of its operation and returns;
11. The Custodian shall cooperate fully with all reasonable requests for documents and records made by the Board, Staff or a Consultant. The Board (on its own or through Staff or a Consultant) shall periodically review the Custodian, including but not limited to, services provided, services available, charges and fees, and reports;
12. Reconcile differences in performance with Investment Managers;
13. The Custodian shall conform to all provisions in its contracts with the System; and
14. The Custodian shall comply with all applicable federal and Indiana laws.

### **1.3 Custodian Role and Authority in Securities Litigation**

The Board recognizes the importance of the Custodian's role in securities litigation monitoring. The following custodial responsibilities have been identified by the Board:

1. Maintain and communicate data necessary to identify the System's securities holdings and transactions in order to determine if the System is a class member, calculate amount of losses, and prepare proofs of claim;
2. Collect and distribute to appropriate parties (i.e., monitoring firm, evaluation counsel, litigation counsel) all notices regarding the commencement, class certification, and settlement of class action lawsuits in which the System has an interest as an actual or potential class member;
3. Collect and deposit into appropriate accounts all investment proceeds of the System's claims;
4. Establish and implement a procedure to identify all securities class actions filed by others in which the System is or may be a class member;
5. Timely file proofs of claim on behalf of System in all class actions in which System may participate as class member; and
6. Provide quarterly reports to CIO regarding status of all class actions in which System is a class member, including status of all proofs of claim.

## Addendum 2 ASA and Legislators DC Plan

### 2.1 Introduction

The purpose of this Addendum is to:

1. Outline the number and characteristics of investment options selected by the Board for the Legislators' Define Contribution Plan and the Annuity Savings Accounts ("Plans"); and
2. Provide rate-of-return objectives and establish formal criteria to monitor and evaluate the performance results of the various investment options.

### 2.2 Statutory Authority

The Annuity Savings Accounts are bookkeeping accounts established for each member of the Plans. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has investment direction to several alternative funds or may leave their account in the Guaranteed Fund. The Guaranteed Fund affords the member a "risk free" protection on all contributions credited to that member's account, plus all previously credited interest at an interest rate determined by the Board each year. The Annuity Savings Accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit. The Plans are subject to the following provisions:

1. The Board must maintain a "Guaranteed Fund" option within the Annuity Savings Accounts.
2. The Board must maintain an indexed stock fund option within the Annuity Savings Accounts.<sup>17</sup>
3. The Board must maintain a bond fund within the Annuity Savings Accounts.<sup>18</sup>
4. The Board must maintain a "Stable Value Fund" option within the Legislators' Defined Contribution Plan.<sup>19</sup>
5. The Board may establish any other options it wishes, so long as the options represent a variety of investment objectives.<sup>20</sup>
6. Administrative costs of each of the options are paid from the earnings on that option.<sup>21</sup>
7. A valuation of each member's Annuity Savings Account must be completed not later than the last day of each quarter, and is currently valued on a daily basis as provided by a rule of the Board.<sup>22</sup>

### 2.3 Delegated Authority

The ED is authorized by the Board, pursuant to a recommendation of the CIO, to retain, manage, and terminate Investment Managers within each asset class as required to achieve the investment objectives of the Other Retirement Funds within the following limitations:

1. The initial investment made in a Portfolio may not exceed 3.0% of the market value of the Other Retirement Funds' assets, with notification provided to the Board at its subsequent meeting. Any additional allocations to the same Portfolio whose sum aggregate to an additional 3.0% or more of the Other Retirement Funds' assets must receive prior authorization from the Board;
2. Reducing assets under management, including full termination of a Portfolio, may not exceed 4.0% of the market value of the Other Retirement Funds' assets, with notification provided to the Board at its subsequent meeting. A Portfolio, however, may be terminated with the agreement of the ED and CIO for any level of assets if such removal is deemed necessary to protect the Other Retirement Funds' assets.

An allocation change may only exceed the limits described in this section for the Guaranteed Fund or with the prior authorization of the Board. Approval authority set forth in this Policy shall be reviewed



upon the departure of either the ED or CIO, to consider the suitability of this investment authority delegated by the Board.

## 2.4 Objectives and Structure

The Plans have been structured to provide members with a choice of several diverse investment options that offer a range of risk and return characteristics appropriate for members. A member may direct an allocation in the amount credited to the member among the Guaranteed Fund and any available alternative accounts subject to the following conditions<sup>23</sup>:

1. A member is allowed to make a change or selection at least once a day.
2. A member's selection shall be implemented the same day the selection is received by the System, unless such selection is received after 4:00 p.m. EST on a business day, or anytime on a weekend or holiday, or any other date the New York Stock Exchange is closed, then the System shall implement the member's selection beginning the next business day after the selection is received. This date is the effective date of the member's selection.
3. A member may select any combination of the Guaranteed Fund or any of the available alternative accounts in one percent (1%) increments.
4. A member's selection remains in effect until a new selection is made.
5. On the effective date of a member's selection, the member's existing balance or balances shall be reallocated in accordance with the member's direction, based on:
  - a. For an alternative investment program balance, the market value on the effective date; and
  - b. For any Guaranteed Fund balance, the account balance on the effective date.

The options currently include:

1. Guaranteed Fund (Annuity Savings Accounts only);
2. Money Market Fund (Annuity Savings Accounts only);
3. Stable Value (Legislators' Plan only);
4. Inflation-Linked Fixed Income Fund;
5. Fixed Income Fund;
6. Target-Date Retirement Funds;
7. Retirement Funds' assets (Legislators' Plan only);
8. Large Cap Equity Index Fund;
9. Small/Mid Cap Equity Fund; and
10. International Equity Fund.

The number and types of investment funds available will be periodically reviewed by the Board in order to ensure a diversity of investment alternatives, adequate and reasonable availability of investment types, and clarity and usefulness of the investment choices.

Annually, the System is required to prepare a separate analysis of the fund options for distribution to the participants describing recent and historical performance results in terms expected to be understandable to the average participant. This analysis must<sup>24</sup>:

1. Include a description of the procedure for changing the member's investment allocations;
2. Be understandable by the majority of members; and
3. Include a description of prior investment performance.

## **2.5 Investment Policy Guidelines**

### **2.5.1 Guaranteed Fund (Annuity Savings Accounts only)**

The investment objective of the Guaranteed Fund will be to exceed the greater of the System's Guaranteed Fund rate (established annually by the Board) or the benchmark index, by 20 basis points net of fees. The Guaranteed Fund's assets will be invested in Portfolios of fixed income securities that exhibit characteristics similar to the benchmark index. Subject to the following limitations, the fixed income holdings held-in the Portfolios may vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio. The Guaranteed Fund will maintain, in aggregate, an average credit quality rating of A3 (Moody's) or equivalent with a duration of +/- 1 year from the benchmark index.

### **2.5.2 Money Market Fund (Annuity Savings Accounts only)**

The investment objective of the Money Market Fund is to provide investment in short-term, principal preserving securities. The fund will be invested according to Section 9 (Public Investment Guidelines).

### **2.5.3 Stable Value Fund (Legislator's Plan only)**

The investment objective of the Stable Value Fund is to provide a competitive level of income over time while preserving the principal value. The fund will be invested according to Section 9 (Public Investment Guidelines).

### **2.5.4 Inflation-Linked Fixed Income Fund**

The investment objective of the Inflation-Linked Fixed Income Fund is to provide a real return investment option which is primarily invested in Treasury Inflation Protected Securities (TIPS). The fund will be invested according to Section 9 (Public Investment Guidelines).

### **2.5.5 Fixed Income Fund**

The investment objective of the Fixed Income Fund is to provide investment in the broad domestic bond market. The fund will be invested according to Section 9 (Public Investment Guidelines).

### **2.5.6 Target Date Retirement Funds**

The investment objective of the Target Date Retirement Funds is to provide a complete asset allocation strategy appropriate for a participant's risk and return preferences in a single fund through a diversified portfolio of the Plan's investment options. The mix of equity and fixed income within the Target Date Retirement Funds becomes more conservative over time until it reaches the allocation of the Retirement Fund. The funds will be invested according to Section 9 (Public Investment Guidelines).

### **2.5.7 Retirement Funds' assets (Legislator's Plan only)**

The investment objective of the Retirement Funds' assets is to provide a diversified allocation of assets designed to balance risk and return. The Retirement Funds' assets will be invested according to the asset allocation stated in Section 6 (Asset Allocation).

### **2.5.8 Large Cap Equity Index Fund**

The investment objective of the Large Cap Equity Index Fund is to provide investment in the broad domestic equity market. The fund will be invested according to Section 9 (Public Investment Guidelines).

### **2.5.9 Small/Mid Cap Equity Fund**

The investment objective of the Small/Mid Cap Equity Fund is to provide investment in the stock of small to mid capitalization domestic companies, typically referred to as small/mid cap stocks. The fund will be invested according to Section 9 (Public Investment Guidelines).

### **2.5.10 International Equity Fund**

The investment objective of the International Equity Fund is to provide a broad exposure to foreign equity markets. The fund will be invested according to Section 9 (Public Investment Guidelines).

## **2.6 Performance Objectives**

The Board has determined that it is in the best interest of the Plan's participants and beneficiaries that performance objectives be established for each investment alternative and it is clearly understood that these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Addendum. The performance of each individual option will be evaluated relative to a market index and to a meaningful peer group of active managers. The evaluation of performance results will be accomplished according to the standards established in Section 9 of this Policy. Specific benchmarks for each option are delineated below:

1. Guaranteed Fund (Annuity Savings Accounts only): Guaranteed Fund rate (established annually by the Board) plus 20 basis points net of fees;
2. Money Market Fund: 90-day Treasury Bill rate;
3. Stable Value Fund (Legislator's Plan only): 90-day Treasury Bill rate;
4. Inflation-linked Fixed Income Fund: Barclays Capital US TIPS Index;
5. Fixed Income Fund: Barclays Capital Aggregate Bond Index;
6. Target Date Retirement Funds: Composite of various benchmarks that closely match each Target Date Fund's allocation;
7. Retirement Funds' assets (Legislator's Plan only): Composite of various benchmarks of the Retirement Funds' asset allocation;
8. Large Cap Equity Index Fund: Standard & Poor's 500 Index;
9. Small/Mid Cap Equity Fund: Russell Small Cap Completeness Index; and
10. International Equity Fund: Morgan Stanley Capital International (MSCI) All Country World Index (ACWI) ex USA.

## **2.7 Rebalancing Guidelines**

The Board has enacted the following rebalancing guidelines for execution by the Custodian at the direction of the CIO and Investment Staff:

1. Small/Mid Cap Equity, International Equity and Fixed Income Options: Rebalancing shall occur systematically on a monthly basis, unless the underlying investment managers' allocations are within +/- 100 basis points (1 percentage point) of the strategic targets, as reviewed by the Board on an annual basis.
2. Target Date Options: Rebalancing shall occur systematically on a monthly basis, unless the underlying investment options' allocations are within +/- 50 basis points (0.5 percentage point) of the strategic targets, as reviewed by the Board on an annual basis.

## **Addendum 3 Trading and Brokerage Policy**

### **3.1 Introduction**

The Board intends to fulfill its responsibility for the evaluation and management of the System's transaction costs for the exclusive benefit of members and beneficiaries. To assist in accomplishing these duties, the Board has adopted the following trading and brokerage policy.

### **3.2 Basic Principles**

The Board requires that these principles guide all transactions for the System:

1. Best execution and lowest cost (including commission costs and market impact), as well as providing benefits exclusively for members and beneficiaries of the System, must apply to trades; and
2. Efforts to reduce trading costs, in terms of both commissions and market impact, provided the investment returns of the System are not jeopardized, will be ongoing.

The Board intends there to be a prohibition on any self-dealing on the part of any brokerage firm, including with the firm's broker affiliate, without specific written prior authorization.

### **3.3 Basic Criteria for Selection of Brokerage Firm**

Subject to any direction from the CIO or ED, each Investment Manager will be responsible for the selection of brokerage firms, or automated trading systems through which trading will be completed for the System. Each Investment Manager is also responsible for conducting all appropriate due diligence on the brokerage firms it selects. Their selection must in all cases be for the benefit of the System's members and beneficiaries and should strive for best execution with lowest cost on trades.

### **3.4 Directed Brokerage/Commission Recapture Policy**

The CIO or ED, on behalf of the Board, retain the right to direct brokers and enter into brokerage commission recapture agreement(s). Accordingly, the Board has developed the following policy guidelines to ensure that any directed brokerage or commission recapture serves the interests of the System's members and their beneficiaries:

1. The objective of this policy is to achieve both commission cost savings and "best execution";
2. Any directed commission brokers will be selected through a process directed by Staff;
3. The percentage of Investment Manager's Portfolio to be directed to the Board's directed commission broker(s) shall be mutually agreed upon between Investment Manager and Staff. Staff shall seek the advice of the Consultant during this process. The objective will be to select a percentage amount that generates substantial commission savings, without hindering the Investment Manager's abilities to execute investment strategies that "add value";
4. Directed commission brokers will provide Staff with periodic reports that document the date and commission amount associated with every directed trade, by the Investment Manager. In this manner, Staff will be able to monitor the overall directed brokerage program, the services of the directed commission broker, and the progress each Investment Manager is making toward any directed commission goal;
5. Commission recapture services will be utilized, where feasible, to defray costs and benefit the Fund's members, subject to the Investment Manager's "best execution" efforts; and
6. The Board intends there to be a prohibition on any self-dealing on the part of any brokerage firm, including with the firm's affiliate, without specific prior authorization.

**3.5 Review/Evaluation**

Periodically, the CIO and Investment Staff shall review the transactions and arrangements for compliance with these policies through a trading cost analysis. The Investment Managers and Custodian shall provide any information necessary to conduct this review.

**3.6 Disclosure**

In addition, each Investment Manager shall report on brokerage firms they are using and the terms of those relationships. This disclosure must cover all components of that relationship, including but not limited to, payment for order flow, soft dollars, covered expenses, and the nature of the broker selection process.

**Addendum 4 Cash Overlay Policy**

The System has a target asset allocation to cash of 0%. However, cash must be kept to pay benefit disbursements and other expenses. In an effort to minimize cash exposure at both the System and Investment Manager level, the System retains a cash overlay manager to more closely align the actual portfolio with the board approved asset allocation stated in Section 6 (Asset Allocation), generally through the buying and selling of futures contracts to increase or decrease asset class exposures, as necessary ("Cash Overlay"). The CIO has the ability to authorize the use of the Cash Overlay for short-term investments of cash flows. The notional value of any derivative exposure in the Cash Overlay portfolio(s) shall be maintained at 100% or less of the cash value being overlaid.

## **Addendum 5 Securities Lending Policy**

### **5.1 Background**

The Board may authorize a Custodian to enter into a securities lending program agreement under which securities held by the Custodian on behalf of the System may be loaned. The purpose of such a program is to provide additional revenue for the System. This policy is not meant to cover securities lending performed by managers of commingled accounts. The Custodian shall agree to keep all assets of the System that are subject to its custodial care in a segregated account. Collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities.

### **5.2 Investment Objective**

The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification of the cash collateral portfolio and tightly controls exposure to fluctuating interest rates.

### **5.3 Method of Implementation**

The securities lending program may be implemented through a Custodian or through a sub-agent of a Custodian. Subject to the approval of the Board, any current Custodian for the System may implement a securities lending program for the assets placed at that particular institution. Any Custodian may utilize a sub-agent at its discretion to conduct its securities lending program in lieu of maintaining an in-house capability. The use of any sub-agent must be approved in writing by the Board, and such approval may be revoked for any reason by the Board. It shall be the responsibility of the Custodian to ensure that their sub-agent adheres to all aspects of these Guidelines as well as any additional contracts with the System which exist in addition to these Guidelines. All costs associated with the use of a sub-custodian shall be borne by the Custodian.

The specifics pertaining to any securities lending program shall be detailed in a separate Securities Lending Agreement.

Additional implementation requirements include the following:

1. The Custodian shall allocate loan opportunities among its securities lending participants in a reasonable and equitable manner.
2. The Custodian shall enter into a borrowing agreement with each borrower setting forth terms not inconsistent with this Policy or any other agreement between and among the System and its Custodian and/or its sub-agent. All loans shall be made on the following terms:
  - a. On behalf of and solely for the benefit of the System;
  - b. Only to a borrower that does not have, and no affiliate of which has, any discretion, investment authority or control, or any investment advisory responsibility with respect to the securities being loaned; and
  - c. On terms that are at least as favorable to the System as an arm's length transaction with an unrelated party would be.

On the day that any loan of securities is made, the Custodian shall deliver to borrower or release through a clearing agency the securities to be loaned and contemporaneously therewith, the

Custodian shall receive from the borrower or through a clearing agency all collateral required to secure the loan.

3. Income earned by the System in connection with the Securities Lending Program shall be credited to the System's custodial account no less frequently than once a month.
4. "Distributions" shall refer to all dividends and other distributions made on or with respect to any loaned securities, including but not limited to: (1) cash; (2) stock or property dividends or distributions; (3) securities received as a result of split-ups of the loaned securities and distributions with respect thereto; (4) interest payments; (5) subscription rights; and (6) all rights to purchase additional securities. The System shall be entitled to receive all Distributions made by an issuer with respect to any loaned securities to the same extent as if the securities had not been loaned. The System understands that it typically will not retain voting rights with respect to any securities that are on loan as of a record date for determining voting rights. All Distributions on the loaned securities shall be credited to the System's account on the payment date, and the Custodian shall assume the responsibility of collecting such Distributions from the borrower or other recipient.
5. The System shall be entitled to no less than eighty five percent (85%) and the Custodian shall be entitled to no more than fifteen percent (15%) of (1) the total Premiums paid by the borrower in a loan of securities against Securities Collateral; and (2) the total Yield, after deducting the rebate, in a loan of securities against Cash Collateral (as defined below) unless otherwise agreed to by the Board.
6. The System shall direct the Investment Manager of the securities to notify the Custodian of any sales by no later than the trade date to permit the Custodian to effect timely return of loaned securities prior to or on the settlement date.
7. In order to verify that the procedures set forth in this Policy are being followed, the Custodian shall cooperate fully with all reasonable requests for documents and records made by the System and/or an independent certified public accountant selected and retained by the State of Indiana's State Board of Accounts to audit securities lending activities.
8. All investment decisions and material transactions made by the Custodian shall be made or transacted by a registered investment advisor as defined by the Securities and Exchange Commission ("SEC").
9. The Board expects the Custodian and/or securities lending sub-agent to offer suggestions with respect to any possible improvements in the program at least annually, and to monitor the results of the program (e.g., income, costs associated with the program, issues that arise with respect to the program) and report to the Investment Staff as directed.
10. In the event of a conflict between this Policy and any provisions of any contract between the System and the Custodian to which this Policy becomes a part, the provisions of this Policy shall prevail.



#### 5.4 Risk Controls

The Board is responsible for evaluating the income attributable to the program and the risks inherent in the program. The Custodian and/or securities lending sub-agent will provide agreed upon indemnification to the System (the Lender) from and against any losses, damages, costs and expenses which arise from a borrower defaulting on a loan or filing for bankruptcy. Upon notification of default by the Custodian, which shall be reported immediately to the CIO in writing, the Custodian shall take such actions as are prudent, necessary and appropriate to use the collateral to acquire replacement securities of the exact same type and kind as the securities which were loaned to the borrower. Any inability to acquire such securities shall be reported to the CIO and Investment Manager immediately.

The Custodian and/or securities lending sub-agent is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The Custodian shall propose loans of the System's securities only to borrowers meeting the Custodian's customary standards of creditworthiness. The Custodian shall formally review the creditworthiness of the borrowers approved by the System no less frequently than annually, and shall remove any borrower no longer meeting the Custodian's customary standards of creditworthiness. The name of borrowers and potential borrowers shall be updated and provided to the CIO promptly following the end of each calendar quarter.

The Custodian shall be responsible for receiving acceptable collateral from any borrower to secure each securities loan. "Acceptable Collateral" shall refer only to the following forms of collateral:

1. "Cash Collateral," meaning collateral in the form of cash and evidenced by a certified check, bank cashier's check, wire transfer or, if the loaned securities are delivered to the borrower through an approved central depository system, funds delivered through such depository, including all accounts or instruments in which any such checks or funds are deposited or invested, any proceeds of the foregoing and any increases or decreases to the cash collateral resulting from the marking to market adjustments;
2. "Securities Collateral," meaning collateral consisting of securities issued, or guaranteed as to principal and interest, by the United States government, its agencies or instrumentalities, together with all present and future proceeds there from including all accrued and unpaid interest, and any and all distributions made by the issuer on or with respect thereto, and including any increases or decreases thereto resulting from the marking to market adjustments; and
3. Any combination of Cash Collateral and Securities Collateral agreed upon by the Custodian and a borrower, as defined above.

The Custodian and/or securities lending sub-agent is responsible for ensuring that all loans are at least 102% collateralized for domestic securities and 105% collateralized for international securities. At the close of the market each day, the Acceptable Collateral shall be "marked to market," meaning that market value of the loaned securities shall be determined, and if the market value of the collateral securing the loan is 100% or less of the market value of the respective loaned securities for that day, the borrower shall be required to deliver additional collateral to bring the value back to at least 102% for domestic securities and 105% for international securities, by the close of trading on the next business day. Cash Collateral, for purposes of these collateral requirements, shall be valued at either the amount of cash deposited or the purchase price of the securities purchased with such cash. In no event shall the Acceptable Collateral be less than the total market value of loaned securities.<sup>25</sup>

Securities shall not be loaned in excess of forty percent (40%) of the market value of the System's assets (not on an individual manager account-by-account basis) under the care of the Custodian, marked to

market on a day-to-day but not on an intra-day basis. In addition, the Custodian and/or securities lending sub-agent shall not loan out 100% of a specific security position and shall maintain at least one share of a specific security position and designate as not available for loan in order for the System to act and participate on the merits of a corporate action, including proxy voting.

All investments shall be subject to the prudent investor rule.<sup>26</sup> The Custodian shall not make loans unless the System has full, unencumbered rights to the collateral (both cash and non-cash collateral). The Custodian shall perfect the collateral for the benefit of the System.

## **5.5 Cash Collateral Investment Guidelines**

### **5.5.1 Objectives and Structure of the Cash Collateral Reinvestment Program**

The cash collateral fund seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing cash collateral of this section in high quality fixed income (or adjustable rate) securities. Cash collateral investments emphasize liquidity and principal preservation as prime objectives. Within quality, maturity, and market sector diversification guidelines, investments are made in those securities with the most attractive yields. The Custodian shall be liable to the System for negligent acts and omissions resulting in damages to the System. Any securities acquired in violation of these Cash Collateral Investment Guidelines shall be sold no later than the day following detection, and the Custodian shall reimburse the System for any losses, while the System shall retain all gains from any violation.

### **5.5.2 Permitted Investments**

In reinvesting cash received as collateral pursuant to Securities Lending Agreements, including income received from such collateral, the Custodian is authorized and directed to use any of the following types of investments (the "Permitted Investments"):

1. Short term obligations of corporations, including but not limited to commercial paper, promissory notes, master variable demand notes, and private placements whose commercial paper is rated in the highest category of at least two nationally recognized securities rating organizations (NRSRO) at the time of purchase.
2. Loan participation certificates of corporations whose commercial paper is rated in the highest category of at least two NRSROs at the time of purchase.
3. Short term obligations of banks, including, but not limited to, certificates of deposit, bankers' acceptances, and time deposits (including without limitations any such instrument issued by the Custodian or one of its affiliates).
4. Short term obligations of the United States government or its agencies.
5. Repurchase agreements. Permitted collateral shall be: bonds or notes issued by the United States Treasury, or other securities guaranteed as to principal and interest by the Government of the United States, its agencies, instrumentalities or establishments; corporate obligations of domestic and foreign issuers with a minimum rating of AA- by Standard & Poor's Corporation ("S&P") or Aa3 by Moody's Investor Services, Inc. ("Moody's"); asset-backed securities with a minimum rating of AAA of S&P or Aaa by Moody's or money market instruments (including but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper issued by domestic issuers with a minimum rating of A-1 by S&P and P-1 by Moody's). A repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the System is fully collateralized.
6. Short term investments (taxable or tax-exempt) of municipalities, including but not limited to, commercial paper, variable rate demand notes, and medium term notes, rated in the highest

category of at least one NRSRO at the time of purchase, or in the case of credit enhanced obligations, the issuer of the credit enhancement shall be rated in the highest category of at least one NRSRO.

7. Asset backed securities, including securities secured by, but not limited to, auto and truck loans, credit card receivables, home equity loans, company receivable and leases, which are rated in one of the top three categories of at least one NRSRO at the time of purchase. All asset backed securities shall have a floating rate of interest.
8. Money market mutual funds registered under the Investment Company Act of 1940, as amended, and subject to the Rule 2a-7 restrictions, but not including such funds issued by an affiliate of the Custodian.

### **5.5.3 Concentration of Collateral Investments**

The Custodian shall limit its investment to 5% of the market value of cash collateral in the securities of any one issuer at the time of purchase (other than securities issued by the U.S. Government, its agencies or instrumentalities). With the exception of repurchase agreements, the account may invest up to 25% of its total assets in Permitted Investments of a single issuer for a period of up to three business days. The account may not invest in securities of issuers if, as a result, 25% or more of the account's total assets would be invested in securities of issuers having their principal business activities in the same industry, except that this limitation does not apply to securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities or to municipal securities or to certificates of deposit and bankers' acceptances of domestic branches of U.S. banks. For purposes of this limitation, (a) domestic and foreign banking shall be considered to be different industries and (b) asset-backed securities will be grouped in industries based upon their underlying assets and not treated as constituting a single, separate industry.

### **5.5.4 Maturity Guidelines**

1. All instruments must have a Final Maturity at the time of purchase that does not exceed 13 months. Final Maturity for purposes of these guidelines means the earliest of (i) the date noted on the face of the instrument as the date on which the principal amount must be paid; (ii) in the case of an instrument with an unconditional put or unconditional demand feature, the date on which the principal amount of the instrument can be recovered by demand; or (iii) in the case of a floating rate instrument, the next readjustment of the interest rate, provided that, if the maturity of a floating rate instrument is determined by reference to an unconditional put or unconditional demand feature, the period remaining between adjustments of the interest rate must not exceed two years. A floating rate instrument shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate, for purposes of calculating days to maturity of the instrument and the portfolio's weighted average maturity.
2. A repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur, or, where no date is specified, but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities.
3. Adjustable rate mortgages will have a maturity equal to the period remaining until the last principal payment is required by the terms of the underlying obligation to be paid.
4. The System's maximum weighted average days to maturity may not exceed 60.
5. No more than 25% of the value of the System's portfolio may have a final maturity of more than one year, and in no event more than two years.

### 5.5.5 Prohibited Investments

1. Equity securities (equity securities that have predominant debt characteristics, such as owner trust certificates, shall not be prohibited);
2. Floating rate securities with an interest rate cap, with the exception of those capped at a rate in excess of 20% to comply with state usury laws;
3. Commodities;
4. Unrated securities (with the exception of repurchase agreements, which are not typically rated)
5. Futures, options, or swaps;
6. Structured investment vehicles (SIVs) ;
7. Only U.S. Dollar denominated securities will be permissible under these guidelines;
8. Any instrument whose coupon rate will move in the opposite direction of the index to which such instrument is tied. In addition, in the event that the fund invests in any instrument whose coupon rate moves when the index to which such rate is tied moves, the System shall invest only in those of such instruments whose movements in the coupon rate are equivalent to movements in the index;
9. Securities based on either an S&P, Moody's, Fitch, or Duff rating where the rating organization has announced publicly that it is examining the rating for a possible downgrade. This limitation does not apply to securities rated A1+ by S&P.
10. In the event that a security held in the portfolio falls below the minimum guideline as a result of being downgraded by S&P, Moody's, Fitch, or Duff, Custodian will notify the client and await instructions.

### 5.6 Monitoring

The Custodian and/or securities lending sub-agent is responsible for reporting fully on all aspects of the securities lending program, including its operation and returns. The Custodian and/or securities lending sub-agent shall cooperate fully with all reasonable requests for documents and records made by the State of Indiana's State Board of Accounts and/or an independent certified public accountant selected and retained by the Board to audit securities lending activities.

The System shall receive a monthly report reflecting the loan transactions during the period and showing at least the following information:

1. The total fees paid by borrowers in loans of securities against securities collateral (the "Premiums"), and the percentage share of such Premiums credited to the System's account;
2. The total income earned on Cash Collateral investments (the "Yield"), the amount to be deducted there from as due from the System to the borrowers under the borrowing agreements (the "Rebate"), and the percentage share of the remaining earnings (Yield minus Rebate) credited to the System's account. All amounts credited to the System shall be shown on an Investment Manager-by-Investment Manager, fund-by-fund basis. In addition to the monthly report, significant events which require additional reporting shall include but not be limited to borrower list changes, failed trades due to securities on loan, and collateral shortfalls.

The CIO, on their own or through a Consultant, shall conduct an annual review of the securities lending program. At this time, the CIO will also survey the System's Investment Managers to ensure they have not encountered any problems with the Securities Lending program. If any problems are discovered, steps will be taken to resolve the issue(s) that are in the best interest of the System that may include removal of certain Investment Managers from the program. If and when the program is out of compliance, Staff will notify the Board and take commercially reasonable steps to bring the program into full compliance with this Policy.

## **Addendum 6 Securities Litigation Policy**

### **6.1 Statement of Intent**

This securities litigation policy is established to provide a process for the monitoring of pending legal actions in which the System is a potential member of a plaintiff's class or otherwise possesses an independent right to a securities law claim. As a fiduciary, the System has a duty to monitor and evaluate such actions in which it may potentially be a member or participant. This policy contains the System's process and guidelines for evaluating the appropriate level of participation in securities litigation claims.

### **6.2 Identifying and Evaluation Potential Claims**

Claims may generally be identified either by Staff, Custodian, Investment Managers, securities litigation monitoring firm(s) engaged by the System, or the class action bar. Staff will determine the most expedient method to identify claims in which the System has an interest. If the System may qualify to recover, further review by Staff (and evaluation counsel, if one is selected) will be undertaken to determine the System's level of participation. Such levels may include:

1. Participating as passive class member in class actions brought by others, and filing claims when action is settled/resolved;
2. Enhanced participation as class member in class actions brought and led by others, by considering objections or comments on settlements;
3. Active participation in class action litigation, including serving as a "lead plaintiff" pursuant to the Private Securities Litigation Reform Act; and
4. Opting out of the class action and pursuing separate litigation on behalf of the System.

In determining the level of participation, consideration will be given to the following factors:

1. Size of the System's damages measured by standards applicable to securities litigation;
2. Strength of claims, including evaluation of defenses;
3. Special circumstances which render the System's claims different from (stronger or weaker) than claims of typical class members;
4. Venue of litigation;
5. Availability of resources to pay a significant recovery (e.g. financial condition of target company, availability of insurance, multiple defendants such as auditors, underwriters, etc.);
6. Qualifications of other lead plaintiff candidates and their counsel, and likelihood the System would be selected a lead plaintiff;
7. Relations of claims to other corporate governance issues of special interest to the System's participants, and impact on other System holdings;
8. Potential for non-monetary remedies of special importance to the System which other class members/lead plaintiffs may not pursue;
9. Costs to the System of separate litigation/lead plaintiff status such as discovery, and Staff/Board time and resources needed to monitor litigation more actively; and
10. Whether the active involvement of the System will likely add value to the potential recovery or management of the case.

If, after reviewing these factors, Staff determines that additional examination is warranted and that the potential exists for the System to add significant value to the claim by actively participating, or opting out of a potential class of litigants and pursuing a claim independently, review of the potential claim will be referred to an evaluation counsel, in accordance with the process outlined below.

### **6.3 Evaluation Counsel**

If further evaluation is determined to be warranted, an evaluation counsel may be retained to perform additional due diligence regarding the claim. The System may retain evaluation counsel through the issuance of a request for proposal (“RFP”) on a case by case basis, or by issuing an RFP that selects any number of firms to be subsequently used in individual cases when a referral to an evaluation counsel is determined to be warranted by Staff reviewing a case. Additional due diligence may include, without limitation: assessment of the complaint, SEC filings and company disclosures, contacts with other investors, consideration of non-litigation alternatives, and potential conflicts with other class members. The evaluation counsel will make a recommendation to the ED, the CIO, and the Chief Legal Counsel based upon their due diligence as to whether more active participation or opting out of a class action and pursuing a claim independently by the System would add significant value to any other options for recovery. Evaluation counsel may also be asked to evaluate settlements of class actions and recommend whether the System should object to, comment or opt out of a particular settlement. Evaluation counsel will not be eligible to serve as litigation counsel for the System on any matter they have evaluated for the System.

### **6.4 Staff Review and Consultation with Board**

Following a review of the potential claim by Staff and receipt of the recommendation of the evaluation counsel, the ED, CIO, and legal counsel will make a formal recommendation to the Board for approval.

### **6.5 Selection of Securities Litigation Counsel**

If the Board approves active involvement in a securities litigation claim, the System shall engage outside counsel to pursue such claims directly on behalf of the Board. The Board shall make a selection of the counsel that the Board deems best able to represent the System's interests in pursuing such action.

The System may determine it would be best to work with another institutional investor, so the Staff may recommend, and the Board may conclude, that the most sensible and cost effective source of legal representation will be the System legal counsel or the legal counsel representing such institutional investor.

### **6.6 Case Management**

The authority to settle, withdraw from or otherwise terminate a securities litigation matter initiated by the System pursuant to this Policy rests with the Board, but the Board may delegate such authority to the ED and/or legal counsel.

The Board shall receive a quarterly report regarding the status of all securities litigation matters when such matters are currently under consideration.

## **Addendum 7 Proxy Voting Policy**

### **7.1 Introduction**

The System is a significant equity investor in businesses around the world. The Board recognizes its responsibilities as a fiduciary of the System and believes a delegation of authority to other fiduciaries of the System, specifically the Investment Managers, is the most suitable approach to voting proxies.

Each Investment Manager who is retained by the System to buy, sell or manage common stock, will have the responsibility of voting the common stock in accordance with its internal proxy voting policy and this Policy. To the extent that a third-party is used by an Investment Manager for proxy voting, the Investment Manager must inform the System of the third-party and its exact responsibility. In completing this responsibility, each Investment Manager is expected to take this Policy into consideration.

### **7.2 Guidelines**

In exercising the proxy voting authority delegated to it by the Board, each Investment Manager is to vote the proxies for the exclusive benefit of the System's members and beneficiaries, recognizing all such assets are governed by the exclusive benefit rule of the Internal Revenue Code applicable to qualified plans.

In accordance with Indiana law<sup>27</sup>, when voting the proxies of common stock, the Investment Manager must act with the care, skill, prudence, and diligence of a prudent expert who is similarly situated and knowledgeable in the matters under consideration. The Board intends that this duty embodies the most rigorous application of this standard and that the Investment Manager act solely in the best interests of the System's members.

These two requirements mandate that the Investment Manager conduct an individual review and analysis of each proxy issue prior to voting. In all cases, the long-term economic best interests of the System's members and beneficiaries should guide voting decisions.

### **7.3 Reporting Requirements**

Each Investment Manager that votes shares of common stock owned by the System will be required to document all proxy voting decisions and report to the Investment Staff no less frequently than annually. The report shall include at a minimum the following:

1. A description of the process the Investment Manager uses to ensure that reasonable steps have been taken to allow for the timely voting of all proxies on all stocks which are held as of the record date; and
2. The action and rationale taken on proxies.

### **7.4 Revocation of Voting Authority**

The CIO or ED may revoke the authority of an Investment Manager to vote the shares of common stock held by presenting a written revocation of voting authority to the Investment Manager. This revocation may apply to an individual common stock or all common stocks managed by the Investment Managers as deemed to be in the best interest of the System. Any actions taken will be reported to the Board at its next regular meeting.

## **Addendum 8 Investment Information Disclosure Policy**

In order to comply with the Access to Public Records Act (“APRA”)<sup>28</sup>, the Board hereby adopts this policy regarding disclosure of information pertaining to the System’s alternative investments (i.e., limited partnership interests in private equity funds, hedge funds, risk parity funds and real assets (individually, such entity, a “Partnership”)).

### **8.1 General Principles**

The Board appreciates its public role as an independent body corporate and politic exercising its responsibility to be publicly accountable for its investment decisions. As a separate corporate body, the Board is required to comply with the public records provisions of APRA.

Generally, public records of the Board must be available for public disclosure. However, APRA prohibits disclosure of records that contain trade secrets<sup>29</sup> or confidential financial information<sup>30</sup> and exempts from disclosure records that are intra-agency or interagency advisory or deliberative material<sup>31</sup>. APRA provides that records containing trade secrets or confidential financial information may not be disclosed by a public agency unless specifically required by statute or under the rules of discovery.<sup>32</sup> Further, APRA provides that records considered intra-agency or interagency advisory or deliberative material shall be excepted from the disclosure requirements under APRA at the discretion of the public agency receiving such APRA disclosure request.<sup>33</sup>

### **8.2 Alternative Investment Disclosure Policy**

Subject to the procedures and any other restrictions applicable under the APRA, Staff is permitted to disclose any of the following information in response to a legitimate APRA request concerning alternative investments:

1. The name of the Partnership in which the System has made an investment;
2. The vintage of the Partnership (i.e., the year in which the initial investment was made or the year the Partnership first calls capital);
3. The amount of the System's total commitment to the Partnership;
4. The amount of the System's unfunded commitment;
5. Aggregate capital contributions and distributions to date resulting from the System's investment in the Partnership;
6. The overall size of the Partnership by committed capital;
7. The reported valuation of the System's investment in the Partnership;
8. Quarter to date, year to date, one year, three year, five year, and inception to date internal rate of return (“IRR”) for each Partnership;
9. Inception to date investment multiple (“MOIC”) for each Partnership;
10. The dollar amount of the total management fees and costs paid on an annual fiscal year-end basis by the System to Partnerships in the aggregate for each applicable asset class; and
11. Other information expressly agreed by the System and Partnership to be disclosable.

In connection with the disclosure of the items listed above, the System is prohibited from agreeing to any terms which would require the System to:

1. Notify the Partnership of any anticipated disclosure of such information (unless the information to be disclosed is not listed as a permitted disclosure above) pursuant to an APRA request;
2. Provide a legal opinion to the Partnership that disclosure of such information in response to an APRA request is required by law; or



3. Cooperate with the Partnership to prevent the disclosure of such information the System, in good faith, determines is not exempt from public disclosure under applicable law.

In order to comply with APRA's prohibition on disclosure of the records that contain trade secrets, the Board and Staff are expressly prohibited from disclosing any information on the Partnership's portfolio company investments and such portfolio company's individual performance contribution to the rate of return on a particular investment. All information disclosed shall be as of the last calendar date of the quarter prior to the quarter immediately ended.

## **Addendum 9 Pension Relief Fund Policy**

### **9.1 Background**

This Addendum is intended to assist the Board in managing the investment program established for the Pension Relief Fund.

The Pension Relief Fund is designed to relieve cities and towns from some of the liability for benefit payments under the 1925 Police Fund, the 1937 Firefighters Fund and the 1953 Police Fund, and is funded through state and local sources.<sup>34</sup> The Pension Relief Fund may be commingled with other Retirement Funds' assets for investment purposes.

With the exception of Section 6 (Asset Allocation), the investment of the Pension Relief Fund remains subject to the other guidelines and requirements found in this Policy.

### **9.2 Asset Allocation**

An asset allocation will be set for the Pension Relief Fund that is consistent with the liquidity needs of the investment funds and corresponding liabilities that the assets support. For all situations in which the assets will be utilized on a short-term basis, the investments will be held in a portfolio of high-quality, fixed income assets. Additional asset classes, such as public equities, may be utilized to enhance expected asset returns whenever the investable assets will be held for a significant period of time before disbursement. Investment Staff will be responsible for balancing the funds liquidity needs and return objectives.

## **Addendum 10 Placement Agent Disclosure Policy and Procedures**

### **10.1 Introduction**

The System requires complete and timely disclosure of all agreements or other arrangements by the System's Investment Managers in connection with their use, if any, of Placement Agents with respect to the System's investment and other business activity.

### **10.2 Definitions**

All capitalized terms not defined herein shall have the meanings ascribed to such terms in the System's Investment Policy Statement effective January 1, 2012, as the same may be amended from time to time.

1. Benefit – Any actual or proposed fee (regardless of whether it is a flat fee, a contingent fee, a percentage fee, etc.), commission, retainer, economic benefit or other consideration or benefit, to be paid, provided, or given to a Placement Agent or its designee that is or will be paid, provided, or given with respect to any Investment.
2. Investment Manager – A person or entity that manages Investments and all individuals or entities, regardless of legal form, affiliated with such person or entity. The term "Investment Manager" does not include any employee of the System or of the State of Indiana whose responsibilities include managing the System's investments.
3. Investment(s) – Any actual or proposed investment or commitment to invest made by the System and/or its Retirement Funds, including, without limitation, investments or commitments to invest in investment funds, real estate, real property assets, or securities, or the establishment of a managed account or separate account with respect to which the Investment Manager has investment discretion.
4. Placement Agent – An individual or entity, regardless of legal form, that directly or indirectly through one or more intermediaries, contracts with, is engaged or retained by, or represents or otherwise acts with or on behalf of, an Investment Manager to market, solicit, assist, facilitate or seek to secure an Investment in exchange for a Benefit, where such individual or entity is not an employee of the Investment Manager. The term "Placement Agent" does not include attorneys, actuaries, accountants, financial analysts, or economists under contract with the Investment Manager to provide their respective professional services.
5. Policy – This Placement Agent Disclosure Policy and Procedures.

### **10.3 Policy Application and Compliance**

The Executive Director shall have discretion to determine the application and interpretation of, and compliance with, this Policy including, but not limited to, whether there has been a material misstatement or omission in any Disclosure Letter or Closing Disclosure.

#### 10.4 Disclosure and Compliance Requirements

1. Staff or the Consultant shall provide each prospective Investment Manager with a copy of this Policy prior to the commencement of the System's full due-diligence review of any potential Investment.
2. The Investment Manager shall provide a letter signed by an appropriate senior executive and addressed to the System that provides accurate and complete disclosure with respect to the matters specified in **EXHIBIT A**, attached hereto (the "Disclosure Letter"). The Disclosure Letter must be provided to the System prior to the System's completion of its due-diligence review of any potential Investment.
3. At the final closing of the Investment, the Investment Manager must either (1) restate its previously submitted Disclosure Letter, (2) certify that its previously submitted Disclosure Letter contains no material inaccuracies or omissions, or (3) submit a revised Disclosure Letter (such restated Disclosure Letter, certification, or revised Disclosure Letter, the "Closing Disclosure").
4. Staff shall include the original Disclosure Letter and the Closing Disclosure as an essential part of the closing record in the file with other documents related to the Investment.
5. In the event it is discovered that the Investment Manager knew or should have known about any material omission or inaccuracy in the Disclosure Letter or in the Closing Disclosure or about any other violation of this Policy, the Investment Manager shall provide the System's CIO with written notice within five (5) days. The foregoing provision will apply to the Disclosure Letter and the Closing Disclosure in the form and substance they were provided as of the dates they were each provided based on the facts and circumstances at such time, *i.e.*, there is no continuing obligation to update the Disclosure Letter or the Closing Disclosure with respect to events that occur subsequent to such dates.

#### 10.5 System Remedies

In the event that the Investment Manager fails to comply with this Policy or makes a material misstatement or omission in the Disclosure Letter or in the Closing Disclosure, the System shall have the option in its sole discretion to exercise at any time any or all of the following remedies, to the extent applicable to such Investment: (1) be reimbursed by the Investment Manager for any management or advisory fees paid by the System to the Investment Manager or any of its affiliates or designees for the prior two years in connection with the Investment; (2) be reimbursed by the Investment Manager an amount equal to the Benefit paid or promised to be paid to the Placement Agent in connection with the Investment; and/or (3) terminate without liability or penalty the System's investment relationship with the Investment Manager, which may involve termination of any contract or agreement with the Investment Manager, withdrawing from the applicable investment vehicle, terminating the obligation of the System to pay any fees or make any capital contributions with respect to the applicable investment vehicle and terminating the right of the applicable investment vehicle to withhold and apply amounts retained by such investment vehicle for the account of the System.

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<sup>1</sup> IC 5-10.5-1-2

<sup>2</sup> IC 5-10.5-1-3

<sup>3</sup> INPRS Board Governance Manual

<sup>4</sup> IC 5-10.5-1-6

<sup>5</sup> IC 5-10.5-2-1

<sup>6</sup> IC 5-10.5-2-2

<sup>7</sup> IC 5-10.5-3. The Board has the powers, duties, restrictions, limitations, and penalties in connection with the board's investment and management of the assets of the Retirement Funds of the System under the following provisions: (1) IC 5-10.2-2-2.5; (2) IC 5-10.2-2-13; (3) IC 5-10.2-2-18; (4) IC 5-10.3-3-7.1; (5) IC 5-10.3-5-3; (6) IC 5-10.3-5-3.1; (7) IC 5-10.3-5-4; (8) IC 5-10.3-5-5; (9) IC 5-10.3-5-6; (10) IC 5-10.4-3-7; (11) IC 5-10.4-3-9; (12) IC 5-10.4-3-10; (13) IC 5-10.4-3-11; (14) IC 5-10.4-3-12; (15) IC 5-10.4-3-13; (16) IC 5-10.4-3-14; (17) IC 5-10.4-3-15; (18) IC 5-10.4-3-16; (19) 35 IAC 1.2-1-3

<sup>8</sup> IC 5-10.2-2-2.5(a)

<sup>9</sup> IC 5-10.3-5-3

<sup>10</sup> IC 5-10.3-5-3

<sup>11</sup> IC 4-2-6, IC 4-2-7, Indiana Exec Orders 04-08 and 05-12

<sup>12</sup> IC 4-2-6 and IC 4-2-7

<sup>13</sup> IC 5-10.2-2-2.5

<sup>14</sup> IC 5-10.3-5-4(a)

<sup>15</sup> IC 5-10.4-3-13

<sup>16</sup> IC 5-10.3-5-4(a)

<sup>17</sup> IC 5-10.2-2-3(c)(1)

<sup>18</sup> IC 5-10.2-2-3(c)(1)

<sup>19</sup> IC 2-3.5-5-3(a)(1)

<sup>20</sup> IC 5-10.2-2-3(c)(2)

<sup>21</sup> IC 5-10.2-2-3(c)(4)

<sup>22</sup> IC 5-10.2-2-3(c)(5)

<sup>23</sup> 35 IAC 1.2-5-21

<sup>24</sup> IC 5-10.2-2-3(d)

<sup>25</sup> IC 5-10.2-2-13(d)

<sup>26</sup> IC 5-10.4-3-10

<sup>27</sup> IC 5-10.3-5-3, IC 5-10.4-3.10, IC 5-10.2-2-1.5

<sup>28</sup> IC 5-14-3-1, et seq.

<sup>29</sup> IC 5-14-3-4(a)(4)

<sup>30</sup> IC 5-14-3-4(a)(5)

<sup>31</sup> IC 5-14-3-4(b)(6)

<sup>32</sup> IC 5-14-3-4(a)(4) and (5)

<sup>33</sup> IC 5-14-3-4(b)(6)

<sup>34</sup> IC 5-10.3-11-1, IC 5-10.3-11-3