
INVESTMENT POLICY STATEMENT

For

Indiana State Police Pension Trust

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INTRODUCTION

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the Treasurer of State ("Trustee"), Department of State Police ("Department") and Pension Advisory Board ("Board") of the Indiana State Police Pension Trust Fund ("Fund"), in effectively supervising, monitoring and evaluating the investment of the State Police Pre-1987 Benefit System and the State Police 1987 Benefit System. The Fund's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Trustee, Department, and Board's attitudes, expectations, objectives and guidelines for the investment of the Fund's assets. The Trustee, Department, and Board intend to employ prudent and acceptable risk management concepts to aid in managing the assets of the Fund.
- Setting forth the emphasis to be placed on diversification of portfolio investments.
- Stating the Trustee, Department, and Board's risk tolerance by setting forth an investment structure for managing the Fund's assets. This structure is defined specifically by various asset classes that are allowable investments, the percentage allocation to each asset class and the acceptable range for each asset class.
- Providing guidelines for each investment portfolio in order to control the level of overall risk assumed by each investment manager. However, the Trustee, Department, and Board delegate to the investment managers the authority to invest the Fund's assets.
- Encouraging effective communications between the Trustee, Department, Board, the investment consultant ("Consultant") and other interested parties.
- Establishing rate of return and formal criteria to monitor, evaluate and compare the performance results achieved by the investment managers.
- Maintaining a prudent investor profile consistent with the statutory requirements of the State of Indiana.

INTRODUCTION

This IPS has been formulated, based upon consideration by the Trustee, Department, and Board of the financial implications of a wide range of investment related matters, and describes the prudent investment process that the Trustee, Department, and Board deem appropriate. The Trustee, Department, and Board do intend this policy to be a dynamic document, and as such, expect to review it periodically. The Trustee, Department, and Board anticipate that changes will be made from time to time to reflect experiences, investment product changes, performance, and economic conditions.

Description

The Indiana State Police Pension Trust Fund was established in 1937 to provide pension, death, survivor, and other benefits to present and former employees of the department and their beneficiaries who meet the statutory requirement for such benefits. The Trust Fund was split into two benefit systems, the State Police Pre-1987 benefit system, and the State Police 1987 benefit system. The Pre-1987 system covers employees who were hired before July 1, 1987 and did not choose coverage by the 1987 benefit system. The 1987 benefit system covers employees hired for the first time after June 30, 1987 and members hired before July 1, 1987 who chose coverage under this system.

The Trustee, Department, and Board intend to demonstrate they are fulfilling their fiduciary responsibilities in the management of the Fund by acting solely in the interest of the Fund's members and their beneficiaries. The Trustee, Department, and Board have determined it is appropriate to completely restate its IPS to incorporate the prudent investor standard governing the management of the Fund and to incorporate their extensive work completed following the passage of Question 2 November, 1996 (the referendum to allow Indiana public retirement funds to invest in equity securities), P.L. 37-1996, P.L. 39-1997, and P.L. 40-1997.

The Trustee, Department, and Board intend this IPS to supercede all prior investment policies governing the Fund. Additionally, this IPS is binding on all persons with authority over the Fund's assets including investment managers, custodians, consultants, the Trustee, the Department, and the Board, as well as, all other interested parties that have or desire to have a relationship with the Fund.

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Statutory Authority

The General Assembly enacted P.L. 37-1996, which requires that the prudent investor standard shall apply to all Indiana public retirement funds. In doing so, the General Assembly noted the following:

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and

Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient income; and

Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses.

Although the General Assembly desired to subject all of Indiana's public retirement plans to these standards, P.L. 37-1996 did not specifically amend the statutes governing the operation and administration of the Indiana State Police Pre-1987 benefit system and the Indiana State Police 1987 benefit system ("Systems").

On May 12, 1997, P.L. 39-1997 was enacted (later amended by P.L. 2-2003). The Bill provided a new chapter to the Indiana Code, specifically, IC 5-10-0.5. In Section 1 of the chapter, the General Assembly outlines that both the Indiana State Police Pre-1987 benefit system (IC 10-12-3) and the Indiana State Police benefit system (IC 10-12-4) are not subject to the prohibitions of Article 11, Section 12 of the Constitution of the State of Indiana. Additionally, IC 5-10-0.5-1(b)(3) states the investments of the Indiana State Police benefit systems are subject to IC 10-12-2-2.

Finally, on May 13, 1997, P.L. 40-1997 was enacted (later amended by P.L. 2-2003). This establishes the prudent investor standard as the primary statutory provision governing the investment of the Fund's assets. IC 10-12-2-2(c through e) reads as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the

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department and the pension advisory board, may establish investment guidelines and limits on all types of investments, including stocks and bonds and take other action necessary to fulfill its duty as a fiduciary for the trust fund. The trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of an enterprise of a similar character with similar aims. The Trustee shall also diversify such investments in accordance with prudent investment standards. The investment of trust fund is subject to section 3 of this chapter.

Other pertinent investment requirements in the Indiana Code include the following:

1. The pension trust shall satisfy the qualification requirements in Section 401 of the Internal Revenue Code, as applicable to the pension trust. IC 10-12-2-3(a).
2. A part of the corpus or income of the pension trust may not be used or diverted to any purpose other than the exclusive benefit of the participants and their beneficiaries. IC 10-12-2-3(a)(2).
3. The Trustee may not engage in a transaction prohibited by Section 503(b) of the Internal Revenue Code. IC 10-12-2-3(a)(9).

A legal opinion dated January 28, 1998, by Ice Miller Donadio & Ryan, the System's general counsel, analyzes the System's authority to make investments under the Indiana Constitution and concludes that with the enactment of P.L. 39-1997, the System has the authority to invest its assets without regard to the prohibitions of Article 11, Section 12 of the Indiana Constitution. Additionally, it states that the statutory "prudent expert" rule will guide the establishment of portfolio limitations on the types and amounts of allowable investments. Thus, investment vehicles that would pass scrutiny under the prudent investor standards would be permissible investments.

Objectives

The objectives of the Fund have been established in conjunction with a comprehensive review of the current and projected financial requirements. These objectives are:

- To achieve investment performance that meets or exceeds the actuarial assumed rate of 7.0% in order to maintain or build a "funding cushion" in case of unexpected developments or to provide for increases in the benefit structures.
- To enhance the funded status of the plan with regard to the accumulated benefit obligation (ABO) and the actuarial accrued liability (AAL).

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- To have the ability to pay all benefit and expense obligations when due, at a reasonable cost to members and Indiana taxpayers.
- To maximize total investment return within reasonable, unambiguous, and prudent levels of risk and sufficient levels of investment diversification.
- To control costs of administering the Fund and managing the investments.
- To meet all statutory requirements of the State of Indiana.

All aspects of this IPS should be interpreted in a manner consistent with the Fund's objectives. The assets must be invested with the care, skill and diligence that a prudent investor acting in a like capacity would undertake.

DUTIES OF RESPONSIBLE PARTIES

Trustee, Department, and Board Responsibilities

By Indiana Statute, the Treasurer of State as Trustee of the Fund is a fiduciary. The Department and Board, by requiring their approval on the investment management decisions the Trustee makes, made themselves fiduciaries of the Fund. Their responsibilities with respect to the assets of the Fund include completing each of the duties below as a prudent investor:

- Determine the investment objectives and guidelines.
- Choose an appropriate asset allocation strategy.
- Establish and develop explicit written investment policies consistent with investment objectives and periodically review these policies in light of any changes in actuarial variables and market conditions.
- Select qualified investment professionals to assist in the implementation of, management of, and advisement on the investment policies.
- Monitor the investment performance of the Fund to determine achievement of investment objectives and compliance with policy guidelines.
- Monitor and evaluate investment manager performance and conduct due diligence when an investment manager fails to meet a standard.
- Monitor and evaluate consultant performance and conduct due diligence when a consultant fails to meet a standard.
- Upon consideration and evaluation, terminate a consultant.
- Upon consideration and evaluation, terminate an investment manager.
- Periodically review compliance with applicable state and federal laws.
- Study issues affecting the investment of the Fund so as to make educated and prudent decisions in establishing investment policies.

The Trustee, Department and the Pension Advisory Board have the following responsibilities under either Indiana statute or the Pension Trust Agreement:

- Authorize, make and or approve payments for benefits and expenses from the Fund.

DUTIES OF RESPONSIBLE PARTIES

- Engage a pension consultant to assist in the technical operation of the Fund so there is no deterioration in the actuarial status of the Fund.
- File an annual report with the State Board of Accounts with the aid of the pension consultant.

The Department has the following responsibility under Indiana statute:

- Make the minimum annual contribution required to prevent the deterioration of the actuarial status of the Fund.

Staff Responsibilities

The Staff are those persons employed by the Treasurer of State and/or Department. Staff duties are to administer the Fund in line with the policies and decisions of the Trustee, Department, and Board and to provide input for the Trustee, Department, and Board so that issues can be studied fully prior to any Trustee, Department, and Board decision. In addition, Staff is responsible for serving the needs of Fund members, and managing the Fund's relationships with outside professionals.

Investment Managers' Responsibilities

- To manage the Fund's assets under its care, custody, and/or control in accordance with the guidelines, objectives, and the Code of Ethics contained in this IPS.
- To exercise investment discretion in regard to buying, managing, and selling assets held in the portfolio, subject to any guidelines contained in this IPS unless an exemption from a rule or rules is given in writing by the Trustee, Department and/or Board.
- To promptly inform the Trustee, Department, and Board in writing regarding all significant and/or material changes pertaining to the portfolio it manages or the firm itself. Changes in ownership, organizational structure, financial condition, professional staff, recommendation for changes to guidelines or commencement of material litigation are examples of changes to the firm in which the Trustee, Department, and Board is interested.
- To promptly vote all proxies and related actions in a manner consistent with the long-term interest and objectives of the Fund as set forth herein. Each investment manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.

DUTIES OF RESPONSIBLE PARTIES

- To use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement plans with like aims in accordance and compliance with all applicable laws, rules, and regulations, including the State of Indiana.
- To acknowledge and agree in writing as to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future, unless given a written exemption from a rule or rules by the Trustee, Department and/or Board.
- To report to the Trustee, Department, and Board or a designee monthly regarding the status of the portfolio and its performance for various time periods. Meet with the Trustee, Department, and Board or a designee periodically to report on their performance and compliance with goals and objectives.
- To be registered and retain their registration under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC.

Investment Consultants' Responsibilities

- Provide independent and unbiased information.
- Assist in the development of a strategic asset allocation strategy.
- Assist in the development and management of an IPS and the documentation of all investment decisions.
- Assist in the selection of "prudent experts", investment managers who are charged with making investment decisions consistent with this IPS.
- Assist in development of performance measurement standards.
- Monitor and evaluate investment manager performance on an ongoing basis and conduct due diligence when an investment manager fails to meet a standard.
- Make recommendations with respect to investment manager retention or termination.

DUTIES OF RESPONSIBLE PARTIES

- Assist in monitoring hired investment managers and service vendors for compliance with this IPS.
- Assist in the control of investment expenses, including helping to negotiate investment manager and custodian fees.
- Assist in educating the Trustee, Department, and Board of their fiduciary responsibilities and the fundamentals of investment management.
- To report to the Trustee, Department, and Board or a designee quarterly regarding the status of the portfolio and its performance for various time periods. Meet with the Trustee, Department, and Board or a designee periodically to report on their performance and compliance with goals and objectives.

Custodian Responsibilities

A custodian may be authorized to:

- Hold securities and other investments in the name of the Fund, in the name of a nominee of the custodian, or in bearer form;
- Collect and receive income and other receipts from the securities and other investments and deposit or reinvest them subject to the direction of the Trustee, Department, and Board or one of its authorized representatives;
- Maintain accounting records and prepare reports which are required by the Trustee, Department, Board, Staff and/or State Board of Accounts;
- Perform other services for the Trustee, Department, Board and/or Staff as are customary and appropriate for custodian.

Transition Manager

Transition management is the cost effective and efficient portfolio restructuring of institutional assets from single or multiple investment managers/asset classes to a new investment allocation over a short-term investment horizon. During the transition process, the Transition Manager reviews the lists of assets to be transitioned, analyzes projected transaction volumes, examines potential trading costs and effects transactions. The Fund has determined that its agreement with a Transition Manager and at the minimum should include the following responsibilities.

- Transition management (portfolio transition) services from the legacy portfolio(s) to the target portfolio(s).

DUTIES OF RESPONSIBLE PARTIES

- The Transition Manager will agree to perform its transition management services hereunder with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the performance of similar services.
- Minimize tracking error and maintain asset class (benchmark) exposure. During the transition period, the preservation of capital must be taken into consideration through the expert use of all sources of liquidity, namely: in-kind transfers ("cherry picking" of the legacy portfolio for the target portfolio), internal and external crossing networks, primary exchanges, non-displayed liquidity, and principal trades. The strategic and tactical deployment of cash, futures, ETFs, and other hedging strategies are included in the tools required to accomplish a smooth transition.
- Before the transition, the Transition Manager should provide the fund sponsor a written portfolio transition (liquidation) strategy, including the timeframe required, to achieve the desired objective of liquidating the legacy portfolio(s) and building (and/or funding) the target portfolio(s).
- During the transition period, daily reporting of all trade activity from commencement of the liquidation to the completion and full funding of the target portfolios should be available to the fund sponsor.
- After the completion of the transition, the Transition Manager should provide the Trustee, Department, and Board with a report on the outcome and results of the transition. The report should include relevant statistics (i.e., tracking error and costs calculated using the t-standard methodology).
- Coordination of the firm's trading activity with investment managers (both legacy and target portfolios) and the custodial bank.
- The Transition Manager must carry the appropriate coverage for errors and omissions and professional liability insurance.

CODE OF ETHICS

Fiduciary Responsibilities

The Trustee, the Department, and the members of the Board recognize that they serve as fiduciaries of the Fund. Their responsibility is the prudent investment of Fund assets. Thus, the Trustee, Department, and Board shall exercise the care, skill, prudence and diligence that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of an enterprise of similar character and with similar aims. The Trustee, Department, and Board must also diversify the investments of the Fund in accordance with prudent investment standards. See IC 10-12-2-2(e). The Trustee, Department, and Board have a duty of undivided loyalty, and must be impartial in the exercise of such duty, to the beneficiaries of the Fund, as all Fund assets must be used for the exclusive benefit of the Fund's covered members and their beneficiaries. No part of the corpus or income may be used for or diverted to any purpose other than for the "exclusive benefit" of the members of the Fund or their beneficiaries. See IC 10-12-2-3(a)(2). The Trustee may not engage in any transactions prohibited by Section 503(b) of the Internal Revenue Code. See IC 10-12-2-3(a)(9). The Trustee or anyone acting on its behalf must comply with these provisions.

Compliance with Indiana Code of Ethics

The Trustee, Department, and Board members recognize that they are governed by certain provisions of the Indiana Code of Ethics. Because they believe that public confidence in their integrity is essential not only for members of the Fund, but also for the public and taxpayers of the State of Indiana, they wish to ensure that their actions conform not only with the letter of the law but also with the spirit of the law.

As to the Trustee, Department, and Board members, the Indiana Code of Ethics includes IC 4-2-6-6 as follows:

No state officer or employee, former state officer or employee or special state appointee shall accept any compensation from any employment, transaction, or investment which was entered into or made as a result of material information of a confidential nature.

As to Staff; the Indiana Code of Ethics sets forth specific guidelines, as noted above in IC 4-2-6-6, that all State employees are to observe.

CODE OF ETHICS

Conflict of Interest Rules

The Trustee, Department, and Board members recognize that all Fund transactions and selections are to be based on the integrity and competence of the parties with whom the Fund is dealing and upon financial merit and benefit to Fund members and their beneficiaries, and not on personal relationships. The Trustee, Department, and Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgment in performance of their official responsibilities. Accordingly, the Trustee, Department, and each Board member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Trustee, Department, and individual Board member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If the Trustee, Department, or a Board member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse himself or herself from participating in the matter. That individual shall disclose the reason for any such recusal.

- **Voting**

The Trustee, Department, and Board members should not participate in a discussion or vote on a matter in which they have a direct or indirect significant financial interest. However, this prohibition does not arise in connection with a matter which would have an insignificant economic effect on any interest of the individual, or which affects the individual only as a member of the general public or of a subgroup of the general public, such as members of the Fund as a whole.

- **Disclosure**

1. The Trustee, Department, or any individual who serves on the Board shall fully disclose any substantial interest in any entity in which an investment has been made with monies of the Fund.
2. The Trustee, Department, or any individual Board member shall disclose any significant business relationship they have with any vendors or prospective vendors serving or considered for service to the Fund.

Specific Rules of Conduct

In furtherance of the general principles stated above, the Trustee, Department, and the Board adopts the following specific rules:

CODE OF ETHICS

- Contact with Investment managers

It is the Trustee, Department, and Board's policy that all contact with investment managers or others seeking a business relationship with the Fund should be directed to the Staff, not to these individuals directly. For example, during a professional search process, it is the Trustee, Department, and Board's policy that no individual contact between prospective bidders and these individuals is appropriate. However, the Trustee, Department, and Board recognizes three exceptions to this general rule. First, this rule is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to the individual's status as a fiduciary to the Fund. Second, this rule is not applicable to contacts relating to business with investment managers and consultants with whom the individuals have an existing fiduciary relationship. Third, any other casual incidental contact with an existing or prospective investment manager or consultant an individual has, not directed to specific Fund matters, should be disclosed.

- Gifts

Indiana Code 4-2-6-7(2) provides that the Department and Board members may not receive compensation from any person whom he knows or, in the exercise of reasonable care and diligence should know, has a business relationship with the agency in which the state officer or employee holds a position. "Compensation" means any money, thing of value, or financial benefit conferred on, or received by, any person in return for services rendered, or for services to be rendered, whether by that person or another. See IC 4-2-6-1 (6).

- Speaking Engagements

The Trustee, Department, and Board members may not accept any expenses, reimbursement, or honorarium for any speeches or presentations made in his or her capacity as a fiduciary to the Fund without prior disclosure to, and approval from, the Trustee, Department, and Board. This rule does not apply to circumstances where the individual is speaking or presenting in a capacity unrelated to his fiduciary capacity to the fund or as to which membership is simply recognized as a part of such member's professional experience.

Conferences and Educational Activities

The Trustee, Department, and Board members realize they are encouraged to attend appropriate educational conferences and meetings to assist them in performing their duties. It is the Fund's policy to reimburse an individual for expenses related to such activities subject to the consensus of the Trustee, the Department, and the Pension Advisory Board. The Trustee will serve to coordinate attendance and administer reimbursement, subject to any required State procedure.

CODE OF ETHICS

Responsibilities of Investment Managers and Consultants

In order to accomplish these objectives, each investment manager and consultant retained by the Fund shall be notified in writing of this Code of Ethics and the related Conflict of Interest laws of the State of Indiana, and of the Trustee, Department and Board's adoption of this Code. All investment managers and consultants shall strictly conform to this Code of Ethics. Any suggestion or offer to deviate from these provisions made by the Trustee, Department or individual Board member or Staff member shall be reported by the investment manager or consultant, in writing, to the Trustee, Department, and Board.

The Trustee, Department, and Board recognize that investment managers and consultants have every right as citizens to participate in the political process both individually or corporately. However, the Trustee, Department, and Board believe that it is inappropriate and improper for them to solicit contributions or support of specific candidates from any investment managers, consultants or Staff. Any such incidents should be reported, in writing, by the investment manager or consultant to the Trustee, Department, and Board.

All investment managers, consultants and other persons retained in any capacity which has fiduciary responsibilities are expected to abide by the provisions of this Code of Ethics.

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Asset Allocation" is amended as follows:

ASSET ALLOCATION

Background

It is the responsibility of the Trustee with the approval of the Department and Board to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits. The Trustee, Department, and Board recognize that the allocation of assets to each asset class is the predominate determinant of investment returns over longer time periods. To guide the selection of the "optimal" asset mix, liability projections and characteristics were linked with asset projections over future time periods. Some key factors considered in determining the appropriate asset allocation for the Fund were the "Funded Ratios" and liquidity requirements appropriate to provide the promised benefits to the members of the Fund and their beneficiaries.

Based on the asset allocation and liability study conducted by Capital Cities, L.L.C. initially in July, 2000, subsequently reviewed in August 2004, January 2007 and May 2009, which analyzed the expected returns of various asset classes, projected liabilities and the risks associated with alternative asset mix strategies, the Trustee, Department and Board have established an optimal asset mix.

Strategic Asset Allocation

<i>Asset Class</i>	<i>Strategic Target</i>	<i>Rebalancing Range</i>
Broad Domestic Equities	49%	± 5%
International Equities	12%	± 3%
Fixed Income	37%	± 5%
Cash and Equivalents	<u>2%</u>	± 1%
Total	100%	

The study has shown that this asset mix offers an appropriate combination of meeting longer term goals and managing risk. Within each asset class stated above the Trustee, Department, and Board may further diversify (where possible) as to style and investment manager type to further enhance return or further reduce risk. In addition, the risk to any one manager will be evaluated regarding proper diversification among investment strategy and business risk. The benchmarks and style specific investment performance expectations for each investment manager are detailed in both the Investment Return Expectations section and Appendix B of this IPS. The style diversification decisions were made with the aid of an equity and fixed income investment manager structure analysis conducted by Capital Cities, L.L.C., initially in August, 2000, reviewed in spring/summer 2005 and again in spring 2007.

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Asset Allocation" is amended as follows:

ASSET ALLOCATION

Rebalancing

The Trustee, Department, and Board recognize that from time to time the asset mix will deviate from the targeted percentages due to market conditions. A range has been established for each asset class to control risk and maximize the effectiveness of the Fund's asset allocation strategy, while avoiding unnecessary turnover at the security level.

The percentage allocation to each asset class on a market value basis should be reviewed by the Trustee, Department, and Board no less than quarterly. When an asset class is outside of its allowable range, the Trustee, Department, and Board will evaluate the feasibility of rebalancing the Fund back to the target allocation. During periods of extreme market conditions, which may include excessive volatility or illiquidity in an asset class, or where rebalancing may unduly hinder the Fund, the Trustee, Department, and Board may choose to delay rebalancing the Fund. During that period, it is expected that more frequent reviews of the Fund's allocation and market conditions will be evaluated to assess the appropriateness of rebalancing the Fund.

The percentage allocation to each asset class on a market value basis should be reviewed by the Trustee, Department, and Board no less than quarterly. When an asset class is outside of its allowable range, a reallocation should be made to rebalance that asset class back to the target allocation.

Where possible, cash flow to or from the Fund should be used to rebalance back to the targeted percentage as much as possible, since this avoids unnecessary turnover of securities. Where transfers between accounts are required investment managers should be notified in advance, if possible, of the amount and timing of any transfers to or from their accounts.

INVESTMENT RETURN EXPECTATIONS

Time Horizon

The Trustee, Department and Board recognize the difficulty of achieving the Fund's performance objectives in light of the uncertainties of the investment markets, particularly during short-term time periods, therefore, interim fluctuations should be viewed with appropriate perspective. However, the impact of the current economic environment and significant deviations from performance objectives will be monitored so appropriate action can be taken if deemed necessary. The Trustee, Department, and Board also recognize that some risk must be assumed to achieve the Fund's objectives.

In establishing the Fund's strategic asset allocation and investment manager structure, the Trustee, Department, and Board focused on developing successful long-term strategies. A five-year time horizon was employed to reflect the Trustee, Department, and Board's emphasis on the long-term.

It is important to note that long-term perspective was not utilized exclusively in establishing the strategic asset allocation. Liquidity requirements were analyzed and it was determined that contributions and income generated by the portfolio are more than sufficient to meet the disbursements required by the Fund. With the liquidity reserves and allocation to cash and equivalents in the strategic allocation established by the Trustee, Department, and Board, the remaining assets can be fully invested at all times.

In summary, the Fund's current funding status, and several other factors suggest collectively that the Fund can tolerate some interim fluctuation in market value and investment returns in order to achieve long-term objectives.

Performance Evaluation Factors for Total Fund

The Trustee, Department, and Board recognize their fiduciary duty to evaluate the investment management performance of each investment manager and the investment performance of the total Fund. The Trustee, Department, and Board, therefore, wish to establish clear expectations and standards for the total Fund and investment manager performance.

The key factors to be used in the analysis of the investment performance of the total Fund, excluding the assets in the participant loan account, include:

- The progress on the benefit funding requirements of the Fund. All major actuarial and liability assumptions will be subject to an annual review by the Trustee, Board, and Department. This review will focus on the analysis of the major differences between the Fund's assumptions and actual experience.
- To meet or exceed the actuarial assumed interest rate of 7.0%.

INVESTMENT RETURN EXPECTATIONS

- The net investment rate of return and volatility of the Fund, compared to a weighted average of market indices which best describe the Fund's asset classes and investment manager structure.
- The investment rate of return of the Fund, compared to other similar sized public pension funds.

Performance Evaluation Factors for Investment Managers

The Trustee, Department and Board are aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the investment manager selection process. Monitoring these investment managers is a three step process, outlined below:

Step 1 – On-Going Monitoring

The Consultant and the Trustee, Department and Board will perform a constant and on-going analysis of all Fund investment managers. In addition to reviewing quarterly investment performance, the Consultant and the Trustee, Department and Board will continually evaluate:

- Investment manager's adherence to the IPS guidelines
- Material changes in the investment manager's organization, investment philosophy and/or personnel
- The volatility of the investment rates of return of the investment manager compared to the volatility of an appropriate market index and peer group (as listed in Appendix B)
- Comparisons of the investment manager's results to appropriate indices and peer groups (as listed in Appendix B).

Step 2 – Formal Watchlist

If the Consultant and the Trustee, Department and Board determine that any of the above factors, or any other development regarding the investment manager's performance or organization, warrants a more thorough examination, the Trustee, Department and Board will place the investment manager on a formal "watchlist". Factors examined during the watchlist period include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)

Extraordinary events that may lead to an investment manager termination include such things as:

INVESTMENT RETURN EXPECTATIONS

- Change in ownership (e.g., key people "cash out")
 - Change in professionals
 - Changes to a investment manager's philosophy or the process it uses to implement the agreed upon strategy
 - Investment manager is involved in material litigation or fraud
 - Client-servicing problems
 - Significant account losses or significant account growth
 - Change in cost
 - Change in financial condition
 - Extreme performance volatility
- Long-Term Performance in Relation to Appropriate Market Index

Long-term performance standards measure an investment manager's performance over rolling five-year returns or since inception in relation to the appropriate market index.

- Shorter-Term Performance in Relation to Appropriate "Style Group"

Shorter-term performance standards incorporate a time period of at least three years. Each investment manager is expected to consistently perform in the top 50th percentile versus an appropriate peer group of investment managers with similar investment styles. Additionally, each investment manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

Step 3 – Replace or Retain

The watchlist period will generally be four quarters, but the time period can be shorter or longer depending on the factors causing the watchlist.

As a result of the watchlisting examination of the investment manager, a recommendation to either **replace** or **retain** the investment manager will be made.

It is at the Trustee's, Department's and Board's discretion to take corrective action by replacing an investment manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing investment manager. The aforementioned events, or any other events of concern identified by the Trustee, Department or Board, may prompt the immediate removal of an investment manager without it being watchlisted.

INVESTMENT MANAGER GUIDELINES

General Guidelines

As fiduciaries of the Fund, all investment managers (regardless of type of investment) will discharge their duties solely in the interests of the Fund's members and beneficiaries and with the care, skill, prudence, and diligence that an expert would use on his/her own behalf. If the Trustee, Department and Board choose to invest a portion of the Fund in mutual funds or other commingled investment vehicles the products selected shall adhere to the guidelines set forth in the prospectus or trust document. In addition, separate account investment managers shall observe the following rules, unless an exemption from a rule or rules is given in writing by the Trustee, Department and/or Board:

- **Specific Limitation on Holdings.** Each investment manager retained by the Fund shall adhere to the specific limitation on holdings outlined in each investment manager's securities guidelines contained in the IPS.
- **Securities Trading.** Each investment manager is to send copies of each transaction record to the Fund and its custodian(s), as requested. The investment manager is further required to reconcile the account(s) under its management on a timely basis each month with the custodian(s). Each investment manager is responsible for complying fully with the Fund's policies for securities trading and selecting brokerage firms.
- **Acknowledgments in Writing.** Each investment manager retained by the Fund 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 will be expected to provide a copy of the SEC ADV Form Section II on an annual basis. All investment managers shall acknowledge in writing their receipt of this IPS and their agreement to abide by its contents. All investment managers shall have an affirmative duty to bring suggestions for modification or change to the Trustee, Department, and Board.
- **Fiduciary Liability Insurance.** Each investment manager will carry and obtain fiduciary insurance coverage in an amount appropriate for the level of assets under their management and the services rendered. Each investment manager shall annually provide written evidence of such coverage.
- **Fidelity Bond.** Each investment manager will obtain fidelity bonds, in such amount as required by the Trustee, Department and Board. Each investment manager shall annually be required to provide written evidence of such coverage.

INVESTMENT MANAGER GUIDELINES

- **Proxy Voting.** Each investment manager will abide by the Fund's Proxy Voting Policy as stated in the Proxy Voting Policy Section of this IPS. Each investment manager will provide an annual report of proxy voting activity to the Fund consistent with the requirements of the Proxy Voting Policy Section.

- **Conflicts of Interest.** An investment manager shall be subject to the applicable provisions of the Code of Ethics Section of this IPS. An investment manager through its actions on behalf of the Fund shall not invest any part of the Fund with itself or with any person or entity with which or in which it has any economic interest, unless such investment manager receives prior written approval from the Trustee, Department, and Board. This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest. In addition, no investment manager, through its actions on behalf of the Fund, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated entity, unless such investment manager receives prior written approval from the Trustee, Department, and Board.

- **Prohibited Securities and Transactions.** Unless the Trustee, Department, and Board gives its prior written approval, the following prohibited transactions and restrictions are in effect for investment managers:
 - Short sales of any kind
 - Purchases of letter or restricted stock and other unregistered securities, except for rule 144A securities
 - Any transaction that would be a "prohibited transaction" under the Internal Revenue Code
 - Purchases of precious metals
 - Purchases of commodities or commodities contracts
 - Margin purchases or sales, or any other forms of leverage, are prohibited
 - Purchases of derivative securities (with the exception of collateralized mortgage obligations (CMOs), futures, swaps, and options)
 - Purchases in securities issued by an issuer domiciled in a country that supports international terrorism as identified by the State Sponsors of Terrorism list published by the U.S. Department of State.
 - Additionally, the Trustee will provide a list of certain issuers of debt viewed to be at risk for adverse liquidation or litigation proceedings. Among those issuers are non-financial issuers who have received financial assistance from the government in the form of the Troubled Asset Relief Program (TARP). Managers will be restricted from purchasing ADDITIONAL debt of the issuers on the prohibited issuers list, but will NOT be required to liquidate any existing exposure acquired prior to the date of being added to the prohibited issuer list. The list will be reviewed periodically and provided to the managers as changes (additions and deletions) occur.

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Investment Manager Guidelines" is amended as follows:

INVESTMENT MANAGER GUIDELINES

- **Correction of Violations.** In the event a violation of the guidelines occurs, unless otherwise approved by the Trustee, Department, and Board in writing, based upon a determination of the best interests of the Fund, the violation:
 - Shall be corrected immediately by sale no later than the day following detection and notification; and
 - Shall result in the reimbursement of the Fund by the investment manager for any losses, fees and expenses which may have been incurred due to the violation; and
 - Shall result in the Fund retaining any gains which are realized from the violation; and
 - May be grounds for termination by the Trustee, Department, and Board

Securities Guidelines

Each separate account investment manager selected to manage Fund assets must adhere to the following guidelines as well as any applicable Indiana statutory requirements, unless an exemption from these guidelines is given in writing by the Trustee, Department and/or Board. Subject to the guidelines in this section of the IPS, each separate account investment manager shall have full discretionary investment authority over the assets each is responsible for managing. Each investment manager shall be retained to implement a specific investment style and strategy for the Fund. The strategy and underlying philosophy will be described in an addendum to each investment manager's contract. In addition, if the Trustee, Department and Board choose to invest a portion of the Fund in mutual funds or other commingled investment vehicles the products selected shall adhere to the guidelines set forth in the prospectus or trust document.

Large Capitalization Equity Investment Managers

- Equity holdings in any one company should not exceed 5% of market value at initial cost and 7½% of market value through capital appreciation of the investment manager's portion of the Fund's portfolio without the consent of the Trustee, Department, and Board. Bonds of the companies in question would be included in the company exposure calculation if held in the investment manager's portfolio.
- The main focus of investing for large capitalization equity investment managers will be on companies with a market cap in excess of \$8.0 billion at the time of purchase or that are members of the investment manager's stated benchmark index.
- Equity holdings in any one industry should not exceed 25% of the market value of the investment manager's portion of the Fund's portfolio. Equity holdings in any one sector (e.g. energy, technology, etc.) should not exceed 35% of the investment manager's portfolio market value.

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Investment Manager Guidelines" is amended as follows:

INVESTMENT MANAGER GUIDELINES

- Purchasing on margin or any other form of leverage is prohibited.
- Investment managers shall have the responsibility for voting proxy issues on securities held. All proxies shall be voted exclusively for the best interests of the Fund and its participants. Investment managers will keep a proper record of all proxies to which the Fund is entitled, including a brief description of the reason for each.
- Each investment manager shall attempt to minimize uninvested cash balances. All investment managers will be evaluated against their peers on the performance of the total funds under their direct management.
- Investment Managers may be subject to more specific guidelines in their respective contracts or as noted within written exhibits or addendums.

Passive Large Capitalization Equity Investment Managers

The Trustee, Department and Board have chosen to invest a portion of the equity allocation in passive index funds, some of which may be enhanced. Any index fund investment manager is expected to adhere to the relevant guidelines as outlined in its trust document or prospectus.

Mid/Small Capitalization Equity Investment Managers

The guidelines applicable to the large cap equity investment managers shall also apply to the mid/small cap equity investment managers except that:

- Mid/small cap investment managers shall have the discretion to invest a portion of the assets in cash reserves as they deem appropriate. In the event the holdings in cash and equivalents exceeds 10%, they must notify the Trustee, Department, and Board. The investment managers will be evaluated, however, against their peer group on the performance of the total funds under their direct management.
- The main focus of investing for mid/small capitalization equity investment managers will be on companies with a market capitalization of \$100 million to \$8.0 billion at time of purchase or that are members of the investment manager's stated benchmark index.

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Investment Manager Guidelines" is amended as follows:

INVESTMENT MANAGER GUIDELINES

Non-U.S. Equity Investment Managers

The Trustee, Department, and Board will allocate a portion of the investment portfolio to core international equity securities as represented by the MSCI EAFE Index in accordance with the strategic asset allocation. This is intended to enhance the overall return of the Fund, while lowering risk through increased diversification.

All of the guidelines applicable to large cap equity securities shall apply to international equity securities except that:

- Equity holdings in any one country shall not exceed 35% of market value of the investment manager's portion in international equity securities without written approval by the Trustee, Department, and Board.
- Foreign currency exchange contracts may be used for the sole purposes of hedging the exposure to foreign currency risk inherent in the portfolio. Direct or indirect speculation in foreign currency, and any investment activity related to speculation in foreign currency, shall be prohibited.
- Exposure to emerging markets may not exceed more than 15% of the portfolio value.
- Investment Managers may be subject to more specific guidelines in their respective contracts or as noted within written exhibits or addendums.

Domestic Core Fixed Income Investment Managers

The domestic fixed income component of the Fund shall be diversified as to investment management style and asset types in order to lower risk and provide for enhanced returns.

- The average credit quality of each investment manager's portfolio shall not be lower than single A.
- Unless written approval is granted by the Trustee, all fixed income securities at the time of purchase must be rated investment grade using the middle rating of Moody's, S&P, and Fitch, respectively. When all three agencies rate an issue, a median or "two out of three" rating should be used to determine Portfolio eligibility by dropping the highest and lowest rating. When a rating from only two agencies is available, the lower ("most conservative") of the two is used. When a rating from only one agency is available, that rating is used to determine Portfolio eligibility. U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio.

INVESTMENT MANAGER GUIDELINES

- In the event a holding is downgraded by all ratings agencies to less than investment grade as defined above, the manager will sell the security no later than 90 days after the downgrade unless written approval is granted by the Trustee.
- The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the investment manager.
- The exposure of each investment manager's portfolio to the securities of any one issuer should be limited to not exceed 2.5% of market value at initial cost and 3.5% of market value through capital appreciation of the investment manager's portion of the Fund portfolio, with the exception of cash and equivalents. Securities backed by the full faith and credit of the United States Government or any of its instrumentalities shall not be subject to exposure limitations.
- Although it is the Trustee, Department, and Board's desire that its fixed income investment managers remain as fully invested at all times as is prudently possible, fixed income investment managers may invest up to 5% of the Fund's assets under their respective management in cash and equivalents without prior approval granted by the Trustee, Department, and Board, if the cash position is not a result of a portfolio investment strategy already communicated to the Trustee, Department and Board.
- Each investment manager shall be responsible for the daily monitoring of portfolio activity to minimize the uninvested cash balances.
- The average duration of a fixed income investment manager may not vary by more than 20% from the average duration of that investment manager's benchmark index.
- Investment Managers may be subject to more specific guidelines in their respective contracts or as noted within written exhibits or addendums.
- Investment managers are expected to notify, in writing, the Fund of significant sector movement, as defined by a deviation in sector allocation (utilizing the sector classifications of each Investment Manager's respective Index) of 10% or more of the total portfolio value from the previous quarter.
- In aggregate, a portfolio shall have a maximum allocation to securities in each sector as a percentage of the portfolio's total market value as follows:

U.S. Treasury	100%
U.S. Government Agency or Instrumentality	100%
Mortgage-backed (residential agency)	65%
Mortgage-backed (residential non-agency)	15%

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Investment Manager Guidelines" is amended as follows:

INVESTMENT MANAGER GUIDELINES

Mortgage-backed (commercial)	15%
Asset-backed	30%
Taxable Municipal Bonds	20%
Corporate Investment Grade	50%
Corporate High Yield	0%
Non-US Dollar Debt	0%

Domestic Core Plus Fixed Income Investment Managers

The guidelines applicable to Domestic Core Fixed Income investment managers shall also apply to Domestic Core Plus Fixed Income investment managers except that:

- At least 70% of the fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or Fitch's credit quality rating of no less than investment grade using the middle rating of Moody's, S&P, and Fitch, respectively. When all three agencies rate an issue, a median or "two out of three" rating should be used to determine Portfolio eligibility by dropping the highest and lowest rating. When a rating from only two agencies is available, the lower ("most conservative") of the two is used. When a rating from only one agency is available, that rating is used to determine Portfolio eligibility. U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio.
- The average duration of a fixed income investment manager may not vary by more than 25% from the average duration of that investment manager's benchmark index.
- Investments in high-yield and non-U.S. debt securities are permitted. Exposure should be limited to 20% high-yield and 20% non-U.S. debt with a combined exposure to those sectors not to exceed 30%.
- In aggregate, a portfolio shall have a maximum allocation to securities in each sector as a percentage of the portfolio's total market value as follows:

U.S. Treasury	100%
U.S. Government Agency or Instrumentality	100%
Mortgage-backed (residential agency)	65%
Mortgage-backed (residential non-agency)	15%
Mortgage-backed (commercial)	15%
Asset-backed	50%
Taxable Municipal Bonds	20%
Corporate Investment Grade	50%

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Investment Manager Guidelines" is amended as follows:

INVESTMENT MANAGER GUIDELINES

Corporate High Yield	20%
Non-US Dollar Debt	20%
Combined Plus Exposure	30%

Hybrid Fixed Income Investment Managers

The hybrid fixed income component of the Fund shall be diversified as to asset types in order to lower risk and provide for enhanced returns. It is expected that a significant portion of the hybrid portfolio will be invested in non-domestic, non-investment grade securities.

- Investments in high-yield and non-U.S. debt securities are permitted.
- Non U.S.-dollar currency exposure is permitted.
- Each investment manager shall be responsible for the daily monitoring of portfolio activity to minimize the uninvested cash balances.
- Investment Managers may be subject to more specific guidelines in their respective contracts or as noted within written exhibits or addendums.

Reporting and Communication Requirements

Each investment manager is required to provide the Trustee, Department, and Board with monthly investment reports. Such reports, at a minimum, shall contain the following information: time-weighted rates of return for the current month, last three months, year-to-date, three years, five years, asset listings that contain descriptions of all securities held in the portfolio, and a reconciliation report detailing that the account reconciles with the market value furnished by the custodian(s). The investment returns should be reported both gross and net of fees. Each investment manager is expected to provide the monthly investment reports within 20 days of the end of the month.

Each investment manager shall prepare a quarterly report which includes items requested by the Fund, in the format requested by the Fund. These reports should cover any changes to the firm's structure, professional team or product offerings, an analysis of the major changes which have occurred in the capital markets and the portfolio since the last report, a summary of the key portfolio characteristics and other matters as requested. The staff and/or investment consultant will provide the investment managers with a format for these reports.

The investment manager shall immediately report all instances of material events which would affect the investment performance of the portfolio (e.g. default, missed interest payment, business restructuring, etc.) to the Trustee, Department and Board and provide recommendations regarding options for addressing the issues.

Pursuant to the Indiana State Police Pension Trust Investment Policy Statement restated effective September 2005, the section titled "Investment Manager Guidelines" is amended as follows:

INVESTMENT MANAGER GUIDELINES

Each investment manager also is required to provide the Trustee, Department, and Board with information relating to any changes in the investment manager's investment philosophy, ownership structure, financial condition, professional staff, loss of significant client relationship, or any other event which could be judged to or deemed to adversely impact the investment manager. The Trustee, Department, and Board expect to be notified in writing within 30 days of any such changes or events.

From time to time, the Trustee, Department, and Board may meet with each investment manager. The topics for meetings between the Trustee, Department, and Board and the investment manager shall consist of, but not be limited to, the following:

- The investment manager's compliance with the Investment Policy Statement.
- The portfolio's investment performance and risk levels.
- The investment manager's current and proposed investment strategies.
- The investment manager's views concerning the economy and the securities markets, with focus on the likely impact on the investment manager's strategies and the portfolio's performance.
- The effects of any changes to the investment manager's organization, investment philosophy, financial condition, or professional staff.
- Proposed modifications to this Investment Policy Statement.

The Trustee, Department and Board expect their staff or investment consultant to meet more frequently with the investment managers and review these topics.

BROKERAGE POLICY

The Trustee, Department, and Board acknowledge that they have a fiduciary duty to monitor the spending of commission dollars for the exclusive benefit of members and beneficiaries. Even though the Fund is not subject to regulation by the US. Department of Labor (DOL), the Trustee, Department, and Board further acknowledge that the DOL has taken the position that commissions are plan assets, and that plan fiduciaries must have a process in place to "control investment expenses" as long as "best execution" is achieved. It is the intent of the Trustee, Department, and Board that all transactions be effected through brokerage firms at the direction of the investment managers in order to obtain "best execution" and lowest cost.

Subject to direction from the Trustee, Department, and Board, each investment manager will be responsible for the selection of brokerage firms, or automated trading systems through which trading will be completed for the Fund. Each investment manager is also responsible for conducting all appropriate and necessary due diligence on the brokerage firms it selects. Their selection must in all cases be for the exclusive benefit of the Fund's members and beneficiaries and should strive for best execution with lowest cost on trades.

The Trustee, Department, and Board do retain the right to direct brokers and enter into brokerage commission recapture agreement(s). Accordingly, the Trustee, Department, and Board have developed the following policy guidelines to ensure that any directed brokerage policy is a prudent policy that best serves the interests of the Fund's participants and beneficiaries:

1. The objective of the directed brokerage policy is to achieve both commission cost savings and "best execution."
2. Any directed commission brokers will be selected with the assistance of the investment consultant through a process directed by the Trustee, Department, and Board.
3. The percentage of each investment manager's portfolio to be directed to the Trustee, Department, and Board's directed commission broker(s) shall be mutually agreed upon in advance with each investment manager. The Trustee, Department, and Board may seek the advice and counsel of the Fund's investment 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 the Trustee, Department, and Board with quarterly reports that document the date and commission amount associated with every directed trade, by each investment manager. In this manner, the Trustee, Department, and Board 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.

BROKERAGE POLICY

5. Commission recapture services will be utilized, where feasible, to defray costs and benefit the plan participants, subject to the investment manager's "best execution" efforts.
6. The Trustee, Department, and Board intend there to be a prohibition on any self dealing on the part of any brokerage firm, including any with such a firm's affiliate, without specific prior authorization.

In addition, each separate account investment manager shall report at least annually on brokerage firms they are using and the terms of that relationship. The disclosure must cover all components of that relationship, but not limited to, payment for order flows, soft-dollars, covered expenses and the nature of the brokerage selection process.

PROXY VOTING POLICY

Introduction

The Trustee, Department, and Board recognize their responsibilities as fiduciaries of the Fund. The Trustee, Department, and Board believe that a proxy policy is an important element of its overall asset management. As an initial position, the Trustee, Department, and Board believe a delegation of authority to other fiduciaries of the Fund, the investment managers, is the most suitable approach.

Each investment manager who is retained by the Fund to buy, sell or manage Fund assets will have the responsibility of voting any proxies. To the extent that a third-party is used to assist in some aspect of the investment manager's proxy voting, the investment manager must inform the Trustee, the Department, and the Pension Advisory Board of the third-party used and their exact responsibility. In completing this responsibility, each investment manager is expected to take these proxy voting guidelines into consideration.

Guidelines

The investment manager is to exercise its proxy voting authority for the exclusive benefit of Fund members and beneficiaries, realizing all Fund assets are governed by the exclusive benefit rule of the Internal Revenue Code applicable to qualified plans.

In voting proxies, 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 Trustee, Department, and Board intend that this embody the most rigorous application of this standard, that the investment manager act with an eye solely to the best interests of the plan participants. Leigh v. Engle, 727 F.2d 113 (7th Cir. 1984).

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 members and beneficiaries should guide the voting decisions.

Reporting Requirements

The Trustee, Department, and Board intend to monitor the voting decisions of separate account investment managers. To allow this to occur, each separate account investment manager who votes proxies will document such votes and report to the Trustee, Department, and Board no less frequently than annually.

The report shall include at a minimum the following:

- 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.

PROXY VOTING POLICY

- The action taken on routine proxies.
- The action, and rationale for the action, taken on non-routine proxies.
- A description of actions in terms of any effects on members and beneficiaries of the Fund.

Revocation of Voting Authority

The Trustee, Department, and Board may revoke the authority of an investment manager to vote the securities held by presenting a written revocation of voting authority to the investment manager.

SELECTION OF INVESTMENT MANAGERS

The Trustee, Department, and Board have the responsibility for selecting investment managers. The Trustee, Department, and Board's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting investment managers, the Trustee, Department, and Board will:

- Retain a "prudent expert" (a bank, insurance company, or investment advisor as defined by the Registered Investment Advisors Act of 1940).
- Develop an investment manager candidate profile outlining the specific characteristics sought in the investment manager. Such criteria may include, but is not limited to:
 - Investment manager strategy and approach
 - Organizational structure
 - Minimum and maximum assets under management
 - Client servicing capabilities
 - Performance criteria relative to an appropriate index and peer group
- Follow a due-diligence process so as to avoid selecting investment managers on an ad-hoc basis. The due diligence process, at a minimum, will involve analyzing investment manager candidates in terms of certain:
 - **Qualitative Characteristics**, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
 - **Quantitative Characteristics**, such as GIPS-compliant composite return data, investment performance over multiple time periods, performance volatility, risk-adjusted rates of return (e.g., Sharpe Ratios), and certain portfolio characteristics.

The selection process shall conform to the legal requirements of the State of Indiana. The Trustee, Department, and Board may utilize investment consultants or other professionals not responsible for the specific selection to assist in the development of the requirements, screening criteria, and analysis of the investment manager responses during the investment manager selection process. It is the intent of the Trustee, Department, and Board that the investment manager selection process be open to all qualified organizations wishing to participate.

CUSTODIAN GUIDELINES

The Trustee, Department, and Board recognize 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 Fund.

The Trustee, Department, and Board identify the following as responsibilities of the custodian(s) for the segments of the Funds for which the custodian is responsible:

1. Provide complete custody and depository services for the designated accounts.
2. Provide for prompt investment of any cash into the chosen sweep vehicle to avoid uninvested amounts.
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 and properly report transactions in periodic statements.
5. Provide monthly and annual accounting statements as well as on-line access accounting for the Fund, including all transactions; these should be based on accurate security values both for cost and market value. These reports should be provided within ten days of the close of the period.
6. Report to the Trustee, Department, and Board 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. As requested by the Trustee, Department, and Board, provide performance measurement information consistent with GIPS PPS standards for the Fund. As a minimum, the performance measurement information shall contain time-weighted returns for the current month, last three months, year-to-date, last three years, last five years, and performance since inception data. The performance information should be reported both gross and net fees.
9. When directed by the Trustee, Department, and 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 Fund, and report fully on all aspects of its operation and returns.
10. The custodian shall cooperate fully with all reasonable requests for documents and records made by the Trustee, Department and Board or an investment consultant designated by the Trustee, Department, and Board to complete activities such as a periodic audit, transaction verification and other issues. The Trustee, Department

CUSTODIAN GUIDELINES

and Board (on its own or through its investment consultant) shall periodically review the custodians, including but not limited to, services provided, services available, charges and fees, and reports.

11. The custodian shall conform to all provisions in its contract with the Fund.

SECURITIES LENDING POLICY

The Trustee, Department and Board have decided to have the Fund enter into a securities lending program agreement. The purpose of such a program is to provide additional revenue for the Fund. The Trustee, Department and Board have determined that 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.

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 controls exposure to fluctuating interest rates. The Trustee, Department and Board expect the Lending Agent to offer suggestions with respect to any possible improvements in the program and to monitor the results of the program and report to the Trustee, Department and the Board as directed.

Implementation

The specifics pertaining to any securities lending program shall be detailed in a separate contract. Any Lending Agent to provide a securities lending program to the Fund must be approved by the Trustee, Department and Board and such approval may be cancelled by the Trustee, Department and Board for any reason, upon fifteen (15) days' written notice to the custodian. In order to engage in securities lending on the Fund's behalf, the Lending Agent will have the care and custody of and will perform any custodial services necessary to the securities loaned and to be loaned. The custodian shall be responsible for and shall ensure that any Lending Agent for the Fund shall adhere to and be bound by this Policy. All costs associated with the use of a Lending Agent shall be borne by the custodian. The Lending Agent shall agree to keep all assets of the Fund in a separate collateral account.

Guidelines for Implementation:

- The Lending Agent shall allocate loan opportunities among its securities lending participants, including the Fund, in a reasonable and equitable manner.
- The Lending Agent shall enter into a borrowing agreement with each borrower of the Fund's securities setting forth terms consistent with these Guidelines or any other agreement between and among the Fund and its custodian and/or its Lending Agent. All loans shall be made (i) on behalf of and solely for the benefit of the Fund; (ii) 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 (iii) on terms that are at least as favorable to the Fund as an arm's length transaction with an unrelated party would be. On the day of the loan, the Lending Agent shall deliver to borrower or release through a clearing agency the securities to be loaned and contemporaneously therewith, the Lending Agent shall receive from the borrower or through a clearing agency all collateral required to secure the loan.

SECURITIES LENDING POLICY

- Income earned by the Fund in connection with the Securities Lending Program shall be credited to the Fund's custodial account at least once a month.
- "Distributions" shall refer to all dividends and other distributions made on or with respect to any loaned securities, including but not limited to: (i) cash; (ii) stock or property dividends or distributions; (iii) securities received as a result of split-ups of the loaned securities and distributions with respect thereto; (iv) interest payments; (v) subscription rights; and (vi) all rights to purchase additional securities. The Fund 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 Trustee, Department, and Board understand that they do not retain the right to vote any securities that are still on loan as of a record date for determining voting rights. All Distributions on the loaned securities shall be credited to the Fund's account on the payment date, and the Lending Agent shall assume the responsibility of collecting such Distributions from the borrower or other recipient.
- For its performance as Lending Agent in making and administering Loans, the Lending Agent shall pay to custodian a fee, accrued daily, equal to 20% of the sum of all interest, dividends and other distributions earned from Acceptable Investments and securities loan fees paid or payable by the relevant borrowers, net of rebates paid by custodian to relevant borrowers and brokerage commissions incurred in making Acceptable Investments. Custodian is authorized, on a monthly basis, to charge its fees and any other amounts owed by Lending Agent hereunder against the Fund and/or collateral account.
- For all securities except Treasuries, the Trustee, Department, and Board 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. For Treasury securities, the custodian must be notified before 10:00 am (EST) on the settlement date.
- In order to verify that the procedures set forth in this Policy are being followed, the Lending Agent shall cooperate fully with all reasonable requests for documents and records made by the Trustee, Department and Board.
- In the event of a conflict between this Policy and any provisions of any contract between the Trustee, Department, and Board and the Lending Agent to which this Policy becomes a part, the provisions of this Policy shall control.

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Risk Controls

Any Lending Agent agrees, among other things, to 100% indemnification of the Fund for any loss sustained as a result of borrower default, borrower's failure to pay over Distributions, borrower's failure to timely deliver or return collateral or the loaned securities, and overnight market risk; provided, however, that the Fund will bear the market risk of a decrease in the value of collateral acquired by the investment of Cash Collateral. Upon notification of default by the borrower, which shall be reported immediately to the Trustee, Department and Board 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 Trustee, Department, and Board and to the investment manager immediately.

The custodian and/or Lending Agent is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The Lending Agent shall propose loans of the Fund's securities only to borrowers meeting the Lending Agent's standards of creditworthiness. The Lending Agent shall review the creditworthiness of the borrowers at least annually, and shall remove any borrower no longer meeting the Lending Agent's standards of creditworthiness. The names of borrowers and potential borrowers shall be provided to the Fund promptly if requested.

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

- (i) "Cash Collateral," meaning collateral in 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 the market adjustments;
- (ii) "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 therefrom 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;
- (iii) "Letter of Credit," meaning a clean, unconditional and irrevocable letter of credit in favor of custodian as agent for Lending Agent issued by a bank named on a list supplied to Lending Agent by custodian (as such list may be amended from time to time), other than a bank deleted from such list pursuant to notification from custodian and/or Lending Agent; and

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- (iii) Any combination of Cash Collateral, Securities Collateral, and/or Letter of Credit agreed upon by the Lending Agent and a borrower.

The Lending Agent shall require any borrower to deliver Acceptable Collateral valued at the inception of the loan as at least equal to 102% of the Market Value of the loaned 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% by the close of the next business day.

Securities shall not be loaned in excess of forty percent (40%) of the market value of the Fund’s assets (not to be taken 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.

All investments shall be subject to the prudent investor rule.

Investment Guidelines for Cash Collateral

Acceptable Investments. The Lending Agent on behalf of the Fund may invest the cash received as collateral to secure the loan of the Fund’s securities (the “Cash Collateral”). The Lending Agent shall exercise reasonable care, skill, diligence and prudence in connection with such investments. Any securities acquired in violation of the Cash Collateral Investment Guidelines shall be sold no later than the day following discovery, and the Lending Agent shall reimburse the Fund for any losses and the Fund shall retain any gains. Such Cash Collateral shall be invested only in the following investment instruments (the “Cash Collateral Investments”):

- Direct obligations of the United States Government
- Other government securities, defined as securities issued, or guaranteed as to principal and interest, by the United States Government, its agencies or instrumentalities.
- Corporate debt securities, including repurchase agreements, commercial paper, bankers’ acceptances, time deposits with maturities of one month or less, certificates of deposit with maturities of one month or less, medium term notes, floating rate notes, notes, debentures, and bonds; *provided, however*, that at the time of purchase, the securities described in this Paragraph must be rated as follows:
 - Long-term securities must be rated not less than A- by Standard & Poor’s Corporation or A3 by Moody’s Investor Services, Inc.
 - Short-term securities must be rated not less than A1 by Standard & Poor’s Corporation or P1 by Moody’s Investor Services, Inc.

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If a security is not rated by either Standard & Poor's Corporation or Moody's Investor Services, Inc., it shall not be purchased. Split-rated securities shall not be purchased. If any Cash Collateral Investment falls below the minimum rating standard, the Lending Agent shall make a recommendation to the Fund regarding its continued retention as a Cash Collateral Investment.

Prohibited Investments. Cash Collateral shall not be invested in any investment instrument not described above. For example, and not for purposes of limitation, the following investments are excluded:

- Common or preferred stock.
- Mutual Funds.
- Commodities.
- Derivatives of any kind including but not limited to options, futures, mortgage-backed securities etc...
- Convertible debt.
- Foreign/international securities of any kind.
- Issues of affiliates or subsidiaries of foreign corporations— excluding foreign banks rated not less than A1 by Standard and Poor's Corporation or P1 by Moody's Investor Services, Inc.
- Municipal securities.
- Unrated securities.
- Private placements.
- Issues of the Lending Agent, its parent, subsidiaries or joint ventures.
- Letters of credit by any issuer.

Other Guidelines. Any Lending Agent making Cash Collateral Investments shall also be bound by and subject to the following provisions:

- Any Cash Collateral Investment in the securities of any one issuer shall be limited to 5% of the total value, or amount, of the Cash Collateral, except that this restriction shall not apply to the investments in direct obligations of the United States government and other government securities as defined in the Acceptable Investments paragraphs above. This restriction also shall not apply to the counter party in a repurchase agreement investment.
- Cash Collateral shall only be invested in United States dollar denominated investments.
- The maximum maturity of any single security in which the Cash Collateral is invested shall be 365 days, or if the maturity is greater than 365 days, the interest

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rate of the security must be reset no less than every 90 days. The Lending Agent shall not invest in any security which will cause the dollar-weighted average portfolio maturity of the Cash Collateral to be greater than 90 days.

- The Lending Agent is authorized to select brokers and dealers for the execution of trades in connection with the investment of Cash Collateral, which broker or dealer may be an affiliate of the Lending Agent, provided that a competitive execution price is obtained at the time of execution of the trade.
- The Lending Agent is authorized to invest in direct obligations of the United States government and other government securities as defined in the Acceptable Investments paragraphs above purchased from and/or sold by the Lending Agent, or any subsidiaries or affiliates of the Lending Agent.

Monitoring

The custodian and/or securities lending agent is responsible for reporting fully on all aspects of the Securities Lending Program, including its operation and returns.

The Lending Agent shall provide the Trustee, Department, and Board with reports no less frequently than once a month reflecting the loan transactions during the period and showing (i) 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 Fund's account; and (ii) the total income earned on cash collateral investments (the "Yield"), the amount to be deducted therefrom as due from the Fund to the borrowers under the borrowing agreements (the "Rebate"), and the percentage share of the remaining earnings (Yield minus Rebate) credited to the Fund's account. All amounts credited to the Fund shall be shown on a manager-by-manager, fund-by-fund basis.

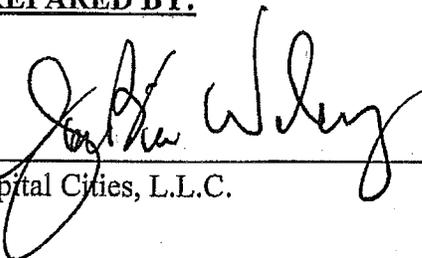
The Trustee, Department and Board shall conduct an annual review of the Securities Lending Program. At this time, the Trustee, Department and Board will also survey its investment managers to ensure they have not encountered any problems with the Program.

INVESTMENT POLICY REVIEW REQUIREMENTS

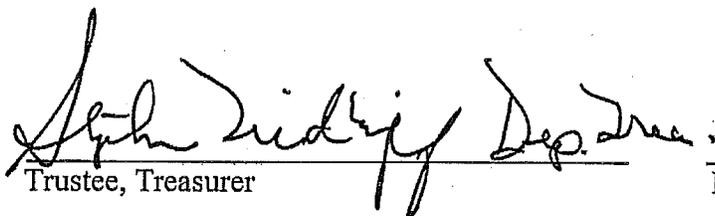
By acknowledging in writing the receipt of this Investment Policy Statement, each investment manager agrees to its terms and conditions. In the event an investment manager believes at any time that changes, additions, or deletions to this Investment Policy Statement are advisable, it will communicate such recommendations to the Trustee, Department, and Board in writing. It is clearly understood that the Trustee, Department and Board, and not the investment manager, is responsible for the establishment of this Investment Policy Statement. The spirit of this paragraph is to encourage investment managers to bring important matters to the attention of the Trustee, Department and Board so that the Trustee, Department, and Board can conduct its reviews of its policies and objectives in an informed manner. The Trustee, Department and Board shall formally review this Investment Policy Statement annually. Any modifications shall be reviewed and discussed with the investment managers prior to implementation.

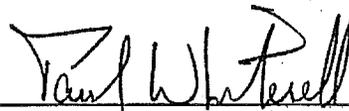
SIGNATURES

PREPARED BY:

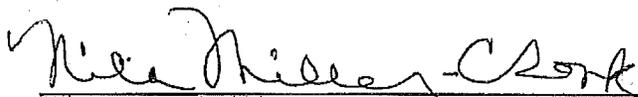

Capital Cities, L.L.C.

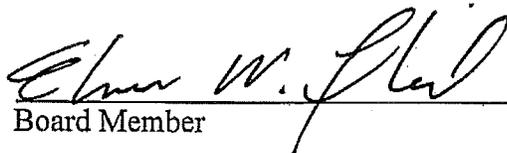
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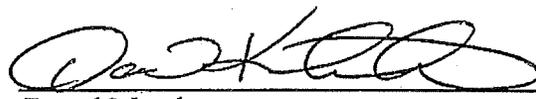

Trustee, Treasurer


Department, Superintendent


Executive Secretary


Board Member


Board Member


Board Member