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**Investment Policy Statement  
For**

**Marin County Employees Retirement Association**



**FINAL  
January 2012**

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**MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENT POLICY STATEMENT**

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## **INTRODUCTION**

The Marin County Employees' Retirement Association ("MCERA") was established to provide retirement benefits to county employees and other local public agencies. The Board of Retirement (the "Board" and/or the "Board of Retirement") is comprised of the County Director of Finance, four members appointed by the County Board of Supervisors, four members elected by the membership, plus one alternate retiree and one alternate safety member.

MCERA was organized in accordance with the provisions of California's 1937 County Employees' Retirement Act. The powers and duties of the Board of Retirement are set forth in the 1937 Act and in Article XVI of the State Constitution. This document provides a framework for the management of the assets of MCERA. The purpose of the Investment Policy is to assist the Board in effectively supervising and monitoring the assets of MCERA (the "Plan" or the "Fund"). Specifically, it will address the following issues:

- The general goals of the investment program;
- The policies and procedures for the management of the investments;
- Specific asset allocations, rebalancing procedures and investment guidelines;
- Performance objectives; and
- Responsible parties.

The Board of Retirement establishes this investment policy in accordance with applicable local, State, and Federal laws. The Board members exercise authority and control over the Plan, by setting policy which the Staff executes either internally or through the use of external prudent experts. The Board oversees and guides the Plan subject to the following basic fiduciary responsibilities:

- Solely in the interest of, and for the exclusive purpose of, providing benefits to participants and their beneficiaries, minimizing contributions thereto, and defraying reasonable expenses of administering the Plan.
- Invest and manage Fund assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the Fund. In satisfying this standard of care, the trustees shall exercise reasonable care, skill, and caution.
- Diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so. Diversification is applicable to the deployment of the assets as a whole.

This policy statement is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while setting forth reasonable parameters to ensure prudence and care in the execution of the investment program.

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## **POLICIES AND PROCEDURES**

The policies and procedures of MCERA's investment program are designed to maximize the probability that the investment goals will be fulfilled. Investment policies will evolve as fund conditions change and as investment conditions warrant.

### *Asset Allocation Policy*

MCERA adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities and benefit payments and the cost of contributions;
- Historical and expected long-term capital market risk and return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The current and projected funding status of the Plan.

This policy provides for diversification of assets in an effort to maximize the investment return of the Plan consistent with market conditions. Asset allocation modeling identifies asset classes the Plan will utilize and the percentage that each class represents of the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. MCERA's Staff and external consultants will monitor and assess the actual asset allocation versus policy and will evaluate any variation deemed significant.

The Board will implement the asset allocation policy (i) through the use of investment managers to invest the assets of MCERA in accordance with the investment guidelines incorporated into the investment management agreements executed with the Board and/or (ii) through its investment in limited liability partnerships, limited liability corporations, group trusts or other commonly used investment vehicles, which invest allocated assets in accordance with the governing documents for the investment vehicle. When appropriate, passive management strategies may also be utilized.

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## **INVESTMENT GOAL STATEMENT**

The Plan's general investment goals are broad in nature. The objective shall be to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above described purpose, are adopted:

- The overall goal of MCERA's investments is to provide Plan participants with retirement, disability, and death and survivor benefits as provided for under the County Employees' Retirement Law of 1937. This will be accomplished through a carefully planned and executed long-term investment program.
- MCERA's assets will be managed on a total return basis. While MCERA recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.
- The total portfolio over the long term will be expected to:
  1. Produce a long-term total portfolio real (above inflation) return commensurate with the target asset allocation contained in Appendix A to this document (annualized, net of fees, over a full market cycle, normally defined as 5-7 years);
  2. Exceed the assumed actuarial rate of return over rolling five year periods; and
  3. Exceed a weighted index of the total Plan's asset allocation policy and component benchmarks over rolling five year periods by an appropriate amount (annualized, net of fees, over a full market cycle).
- MCERA's Investment Policy has been designed to produce a total portfolio, long-term real return. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this goal. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the Association.
- All transactions undertaken will be for the sole benefit of MCERA's members and beneficiaries and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable associated administrative expenses.
- MCERA has a long-term investment horizon, and utilizes an asset allocation plan that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.

Investment recommendations and subsequent actions are expected to comply with "prudent expert" standards. Board members are expected to comply with "prudent investor" standards.

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## **Manager Utilization and Selection**

The selection of investment managers is accomplished in accordance with all applicable local, State and Federal laws and regulations. Each investment manager and consultant functions under a formal contract which delineates responsibilities and appropriate performance expectations. A formal set of investment guidelines and investment administrative requirements for each investment manager has been established and is provided as an addendum to this document. With regard to investment in limited liability partnerships, limited liability corporations, group trusts or other commonly used investment vehicles, the management of the relevant investment vehicle and the investment guidelines will be as set forth in the fund's legal documentation.

## **Manager Authority**

The Plan's investment managers, unless otherwise noted in their contract, shall have designated discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document; applicable local, State and Federal statutes and regulations; and individual management investment plans and executed contracts. Commingled investments, including but not limited to investments in mutual funds, trusts, limited liability partnerships, limited liability corporations, group trusts or other commonly used investment vehicles are expected to comply with the guidelines established in the governing documents or fund prospectus.

The Board and Staff will consider the comments and recommendations of consultants in conjunction with other available information in making informed, prudent decisions.

## **Commission Recapture**

MCERA may require that active equity managers, where possible and consistent with the goal of achieving best execution, direct a percentage of brokerage transactions for Plan assets under their management through designated commission recapture brokers when best execution can be assured. MCERA also encourages its fixed-income managers, on a "best effort" basis, to utilize the services of designated commission recapture brokerage firms. It is understood that the commission recapture brokerage firms must provide the best price and execution consistent with market conditions, bearing in mind the best interests of the Fund's beneficiaries and considering all relevant factors.

All rebates or credits from commissions paid by MCERA's investment managers to the commission recapture brokers will be realized in cash and used to reduce the normal investment-oriented operating expenses of the Fund, to acquire investment products or services, or be rebated back to the Fund.

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## **Proxy Voting**

MCERA acknowledges that the ownership of equities requires proxies to be voted. MCERA commits to managing its proxy voting rights with the same care, skill, diligence and prudence as is exercised in managing its other assets. As responsible fiduciaries, the Board of Retirement will exercise its proxy voting rights in the sole interest of the Plan's members and beneficiaries in accordance with all applicable statutes. Consequently, the following policies and procedures shall be utilized in the determination of voting shareholder proxies:

- All proxies shall be voted by MCERA's equity investment managers consistent with their respective policies on proxy voting and in the best interest of the shareholders. The investment managers will provide a copy of their proxy voting guidelines to MCERA annually.
- For proxy proposals that are deemed by Staff or any Board member to merit review, MCERA may temporarily revoke an investment manager's proxy voting authority in writing. After MCERA has voted on the proxy, proxy voting responsibilities may be delegated (in writing) to the investment manager.
- The investment managers are required to report not less often than semi-annually on all proxy votes cast on MCERA's behalf.
- A record of said proxy votes shall be maintained in the Retirement Office.

## **Securities Lending**

The Board has authorized the execution of a "Securities Lending Program" which will be performed by the Plan custodian or qualified third party securities lending agent(s). The program will be established by a written agreement authorized by the Board and monitored and reviewed by the Staff.

The following are the general guidelines for the securities lending program:

1. The lending program may be implemented through the use of agent lenders or principal lenders;
2. The lenders may lend financial securities including, but not limited to, U.S. and non U.S. equities, corporate bonds, and U.S. and non-U.S. government securities;
3. If an agent program is implemented, the agent shall have full discretion over the selection of borrowers and shall continually review the creditworthiness of potential borrowers through extensive analysis of relevant information;
4. All loans shall be fully collateralized with cash, government securities or irrevocable bank letters of credit;
5. Cash collateral received from securities borrowers will be deposited upon receipt in a pre-approved short-term investment vehicle or vehicles;
6. Loans of U.S. securities are initially collateralized at 102% of the market value of the borrowed securities if the borrowed securities and the collateral are denominated in the same

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currency and at 105% if the borrowed securities and the collateral are denominated in different currencies. As the market value of the collateral falls below 102% (105%) of the market value of the borrowed securities, the borrower is marked to market each business day using yesterday's closing prices, subject to the lending agent's deminimis rules of change;

7. Securities on loan should be marked-to-market on a daily basis to assess adequacy of collateralization;
8. The lender shall provide periodic performance reports to MCERA;
9. The securities lending program should in no way inhibit the portfolio management activities of the other investment managers of the system;
10. Staff shall be responsible for making an annual report to the Board on securities lending activity; and
11. All other operational aspects of MCERA's securities lending program are hereby delegated to Staff.

### **Derivatives and Leverage**

MCERA's investment managers may be permitted under the terms of individual investment guidelines to use derivative instruments to implement market decisions and security positions and to control portfolio risk. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or instruments including, but not limited to, futures, forwards, options, swaps and options on futures. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes and adjusting portfolio duration for fixed income. Portfolio liabilities associated with investments (i.e. mortgage forward bond purchases, futures, in-the-money short puts, reverse repurchase agreements, etc.) shall be backed by cash equivalents or deliverable securities.

MCERA's investment managers are not allowed to utilize derivatives for speculative purposes. All derivatives must be backed by collateral in the form of deliverable securities equal to or greater than the value of the total derivative exposure. In no circumstances can individual managers borrow funds to purchase derivatives. No derivatives positions can be established that create portfolio characteristics outside of portfolio guidelines. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

### **Rebalancing**

Staff shall, on an ongoing basis in accordance with market fluctuations, rebalance the Fund's portfolio so as to remain within the range of targeted allocations and distributions among investment managers and asset allocations. MCERA has a long-term investment horizon and utilizes an asset allocation plan that encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.

MCERA will not attempt to time rises or falls in equity or bond markets by moving away from long-term targets.

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Systematic rebalancing, implemented when the asset classes move outside their target ranges or when significant cash flows occur, will be used to maintain or to move asset allocations within these appropriate ranges.

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## **GENERAL INVESTMENT OBJECTIVES AND GUIDELINES**

### **Equity Portfolios**

Each equity investment manager retained by MCERA will follow a specific investment style and will be evaluated against a specific market index that represents their investment style. In addition, in the case of active managers, investment results may also be compared to returns of a peer group of managers with similar styles. Benchmarks for the various equity portfolios may include the following indices as well as those proposed by the managers reviewed by the Staff and approved by the Board:

#### **Domestic Equity Portfolio – Russell 3000 Index**

*Large Cap Stocks – S&P 500 Index*

*Small Cap Stocks – Russell 2000 Index*

#### **International Equity Portfolio – MSCI ACWI ex-US IMI Index**

*International Large Cap Stocks – MSCI EAFE Index*

*International Small Cap Stocks – S&P/Citigroup Extended Market Index ex-US*

*International Emerging Markets Stocks – MSCI Emerging Markets Free Index*

General equity guidelines for active managers include the following:

- American Depositary Receipts (ADRs) and foreign securities listed on a major US stock exchange or on the NASDAQ are permitted if specified in the manager's guidelines.
- Convertible securities may be held in equity portfolios and shall be considered equity holdings.
- Securities must be traded on a regulated stock exchange, or listed on the NASDAQ or a comparable foreign market operation.
- Forward or futures contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in, or the settlement of, any such securities transactions only in international equity portfolios.
- The following transactions are not permitted unless specifically authorized by the Board in the investment manager agreement or in the specific manager guidelines in the appendix:
  - The use of borrowed funds
  - Short sales or margin sales
  - Private placements (except 144As)
  - Futures, options, currency forwards and futures, and other derivative securities.

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## **Fixed Income Portfolios**

The fixed income portfolios will be managed on a total return basis, following specific investment styles and evaluated against specific market indices that represent a specific investment style or market segment. In addition, investment results may also be compared to returns of a peer group of managers investing with a similar style. The benchmarks for the various fixed income portfolios may include the following indices:

*US Core Plus Fixed Income – Barclays Aggregate Bond Index*

General fixed income guidelines include the following:

- Unless specified in the manager’s guidelines, the minimum average quality rating of the securities in any portfolio will maintain an average weighted credit quality of not more than 2 rating notches below the benchmark’s average weighted credit quality, at all times. For the avoidance of doubt, if the benchmark is rated AA-, then 2 notches below would be A.
- Ratings method: The ratings method used to test both the benchmark’s average credit rating and the portfolio’s average credit rating will be “split to the highest rating” of the three major rating agencies.
- Derivatives, including forward or futures contracts for foreign currencies, may be used to hedge the portfolio, or to effect portfolio management decisions in a timely, cost-effective manner. Borrowed funds shall not be used.
- An individual investment manager’s portfolio shall have an effective duration between 75% - 125% of the effective duration of the appropriate index, unless a broader range is permitted with the specific manager guidelines in the Appendix.
- The following transactions are prohibited unless specifically authorized by the Board or by the specific manager guidelines in the Appendix:
  - Private placements (except 144As);
  - Interest Only CMOs, Principal Only CMOs, inverse floaters and any tranche that has a leveraged component embedded in the structure.

## **Real Estate Portfolios**

The cost basis of any single property at the time of purchase may not exceed 5% of MCERA’s total Plan assets.

- Investments in real estate shall be all cash or subject to existing non-recourse mortgages.
- All investments in real estate shall be managed by external advisors. For separately held real estate where managers do not have discretion regarding purchase and disposition,

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authorization for the purchase or sale of properties shall be by six affirmative votes of the Board of Retirement. By such vote the Board may authorize the use of Seller carryback deed of trust.

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### **Short Term Investment/Cash Equivalents**

MCERA is restricted from investing short term funds and cash equivalents in investment vehicles other than the Treasurer's Pool, the State Pool and the STIF funds maintained at the custodian bank. Retirement funds shall be invested in investments with an average maturity of one year or less.

Any exemption from these general guidelines requires prior written approval from the Board.

### **Policy Implementation Overlay**

The Board may retain a "policy overlay manager" to implement MCERA's portable alpha program and to 'securitize' residual cash positions held by each manager. The policy overlay manager may use futures or swaps, when appropriate, to gain market exposure on existing cash positions. The manager will not use futures or other derivative instruments for speculative purposes.

### **Private Equity Portfolios**

MCERA will invest in private equity through institutional closed-end, finite-life commingled private equity fund-of-funds vehicles. The fund-of-funds vehicles will be limited liability partnerships, limited liability corporations, group trusts or other commonly used investment vehicles.

- Private equity investments will consist primarily of limited partnership investments in diversified private equity portfolios (e.g., venture capital, acquisition, special situation, subordinated debt, restructuring funds, and others).
- The vehicle's manager(s) will have discretion with respect to the management of the fund-of-funds investment program, operating within the parameters delineated in the investment vehicle's legal documents.
- The investment objective of the private equity allocation is to achieve consistent positive real returns and to maximize long-term total return net of fees within prudent levels of risk through capital appreciation and diversification.
- While the investment guidelines of each investment vehicle will be determined by the fund-of-funds legal documentation, the fund's manager, in managing the portfolio, should take prudent care.

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## **INVESTMENT MANAGEMENT POLICY**

MCERA will utilize externally managed portfolios based on specific styles and methodologies. The manager will acknowledge in writing, as more particularly set forth in Appendix B, that they are Plan fiduciaries and, with the exception of certain Real Estate manager(s), will have discretion and authority to determine investment strategy, security selection and timing within their asset class and subject to the Policy guidelines and any other guidelines specific to their portfolio. Performance of the portfolio will be monitored and evaluated on a regular basis relative to each portfolio component's benchmark return and relative to peer groups of managers with similar investment styles.

Investment managers, as prudent experts, will be expected to know MCERA's investment policies (as outlined in this document) and any specific guidelines for their portfolios, and to comply with those policies and guidelines. It is each manager's responsibility to identify policies that may have an adverse impact on performance, and to initiate discussion with Staff toward possible amendment to said policies through Board action. Additionally, and where applicable, investment managers will certify in writing each quarter their compliance with the guidelines as described in this document.

The Board and Staff will also review each investment manager's adherence to its investment policy, and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by MCERA will be responsible for informing the Board and Staff of all such material changes on a timely basis.

Investment managers under contract with MCERA shall have discretion to establish and execute transactions with established regional and national securities broker/dealers as needed. Unless otherwise authorized by the Board, investment managers must obtain the best available prices and most favorable executions with respect to all of the portfolio transactions as market conditions permit.

Unless specifically authorized by the Board, the following transactions will be prohibited: short sales; selling on margin; "prohibited transactions" as defined under the Employee Retirement Income Security Act of 1974 (ERISA); transactions that involve a broker acting as a "principal", where such broker is also the investment manager who is making the transaction, and any or all investment activities forbidden by the SEC or other applicable governing bodies.

### **Selection Criteria for Investment Managers**

Criteria will be established for each manager search undertaken by MCERA, and will be tailored to MCERA's needs in such a search. In general, eligible managers will possess attributes including, but not limited to, the following:

- The firm must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by MCERA.

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- The firm must display a record of stability in retaining and attracting qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
  - The firm must have an asset base sufficient to accommodate MCERA's portfolio. In general, managers should have at least \$100 million of discretionary institutional assets under management, and MCERA's portfolio should make up no more than 20% of the firm's total asset base. Exceptions shall be made on a case-by-case basis.
  - The firm must demonstrate adherence to the investment style sought by MCERA, and adherence to the firm's stated investment discipline.
  - The firm's fees should be competitive with industry standards for the product category.
  - The firm must comply with the "Duties of the investment managers" outlined herein and conform to the CFA Institute standards for performance reporting.

### **Criteria for Investment Manager Termination**

MCERA reserves the unilateral right to terminate a manager at any time for any reason. The occurrence of certain events will result in specific actions being taken. This section describes these events, the course of action that will be taken and the responsible parties.

*Illegal or Unethical Practice.* The manager will report this event in writing to the Retirement Administrator not later than the close of the business day following discovery of the illegal or unethical practice. The Retirement Administrator will inform the Investment Committee in writing of this practice as soon as administratively possible. If the illegal or unethical practice has an adverse affect upon the MCERA portfolio, or any attempt was made by the manager to hide this practice, the manager shall be terminated. If the practice is procedural and has been properly referred to the appropriate regulatory authorities, the Retirement Administrator will recommend to the Investment Committee whether or not to terminate the manager.

*Guideline Violation.* The manager will report any guideline violation in writing to the Retirement Administrator not later than the close of the second business day following discovery along with the manager's proposed remedy. If the violation results in a loss to MCERA, the manager will compensate MCERA for this loss. If the manager refuses to correct this violation, or if other violations occur, the Retirement Administrator will recommend termination of the manager. Guideline violations that have been corrected will be reported to the Investment Committee at their next regular meeting. Violations that have not been corrected, or violations that persist, will be reported to the Investment Committee as soon as administratively possible.

*Deviation from Investment Process.* If the Retirement Administrator determines that the manager has deviated materially from its stated investment process or philosophy, the Retirement Administrator will recommend termination of the manager, as soon as administratively possible, to the Investment Committee.

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*Loss of Key Personnel or Change in Ownership.* The manager will inform the Retirement Administrator in writing within 24 hours following the loss of key personnel or a change in ownership. Loss of key personnel will normally result in termination of the manager. A material change in the ownership of the manager will normally result in the termination of the manager. The Retirement Administrator will make a recommendation regarding termination to the Investment Committee as soon as administratively possible.

*Lack of Cooperation with Reasonable Requests.* The manager is required to provide information, attend meetings and comply with other reasonable requests. Failure to do so will result in a recommendation to terminate the manager.

*Underperformance/Watchlist.* MCERA understands the cyclical nature of investment performance and the potential for its investment managers not to meet objectives over short-term periods. While it is not the Board's intention to terminate a manager for short-term underperformance relative to objectives, the Board has implemented the following process as a means of monitoring and evaluating managers that have experienced performance difficulties in the short-term. The following language creates a "watchlist" as a means of monitoring and evaluating managers that meet this definition.

If a manager trails either its relevant benchmark or its peer universe for two consecutive years, the manager will be placed on a Watchlist. If a manager is on the Watchlist no additional assets will be allocated to the manager until the manager has been removed from the Watchlist. Any additional assets that would otherwise have been allocated to the manager shall be invested temporarily in the asset classes most representative of the manager's asset class. Each manager on Watchlist will be monitored closely by Staff and the Consultant and may be required to make special presentations to the Board and Staff if requested. If the underperformance of a manager on the Watchlist persists over a reasonable period in the future (as defined by the Staff, Board and Consultant based on the unique circumstances surrounding the manager and current market conditions), the Board may and will consider termination.

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## **PRIVATE EQUITY POLICY**

MCERA's private equity investments allocation will consist primarily of limited partnership investments in diversified private equity portfolios (e.g., venture capital, acquisition, special situation, subordinated debt, and restructuring funds and others). MCERA will invest in private equity through institutional closed-end, finite-life commingled private equity fund-of-funds vehicles. The fund-of-funds vehicles will be limited liability partnerships, limited liability corporations, group trusts or other commonly used investment vehicles. Investments directly in stand-alone corporate finance limited partnerships and direct investments in companies are not currently considered appropriate. The vehicle's manager(s) will have discretion with respect to the management of the fund-of-funds investment program, operating within the parameters delineated in the fund's legal documentation. The investment manager of the fund-of-funds will acknowledge in writing by side letter or otherwise that they are Plan fiduciaries and will acknowledge having read and understood the guidelines set forth in this section of the Investment Policy Statement and any other guidelines specific to their portfolio as more particularly set forth in Appendix C.

To maintain an appropriate funded status on a net asset value basis, MCERA may be required to make periodic commitments to additional fund-of-funds vehicles managed by either the same or different fund-of-funds managers. MCERA's staff will work with the investment consultant and the managers to determine appropriate commitment timing and amounts and present a recommended plan to the Board annually.

To ensure adequate access and diversification, MCERA may utilize multiple fund-of-funds providers. There is no specific limit on the number of vendors to be utilized. However, to avoid unnecessary administrative burdens, MCERA will limit the number of vendors employed to the extent practical. Only those firms committed to providing ongoing access to the private equity arena through fund-of-funds offerings, who have a demonstrated record of investing client funds in top tier private equity partnerships and who limit assets accepted for management to sums that can in fact be committed in top tier funds will be considered.

MCERA recognizes that many well-qualified fund-of-funds providers make direct private equity investments within the fund-of-funds vehicle. Such investments are permissible provided that they constitute a comparatively small portion of the total fund-of-funds' asset base (typically less than 20%).

### **Investment Objectives**

The investment objective of the private equity allocation is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through capital appreciation and diversification. MCERA's holdings will be professionally managed on a cash-to-cash basis and will have broad exposure to key private corporate finance strategies (e.g., venture capital, acquisition, special situation, etc.), with allocations to the various strategies diversified in a manner consistent with institutional private equity programs generally.

### **Selection Criteria for Private Equity**

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## Partnership Selection

As requested by MCERA, the investment consultant shall develop a proposed “Manager Candidate Profile” that will serve as the basis for evaluation of potential fund-of-funds providers consistent with MCERA’s investment policy. This document will specify the minimum selection criteria for potential vendors and also detail preferred characteristics. The consultant will then evaluate prospective candidates and submit a listing of those firms that appear to best meet the requirements and preferences. Staff and consultant will discuss these candidates and identify those that should be advanced for Committee and/or Board consideration. Ultimately, the Board will determine which firms shall be retained.

The targeted private equity investments will be fund-of-funds vehicles that are commingled, closed-end, and finite-life limited liability entities.

Due to the inevitability of short-term market fluctuations that may cause variations in the investment performance, it is intended that the performance objectives outlined below will be achieved by the fund-of-funds over the life of the vehicle(s), generally 12 years. The Board of Retirement will evaluate the funds’ interim performance to test progress toward attainment of these longer-term goals. However, it is understood that there are likely to be short-term periods during which performance will deviate from expectations. Minimum expectations are as follows:

- It is expected that the private equity program will, over rolling 5-year periods, provide net of fee returns in excess of those available in the public markets. The nominal return target for the private equity program is a 12% internal rate of return (IRR) or dollar-weighted net of all fees and expenses. The rate of return for the fund-of-funds will also be calculated on a time-weighted basis.
- The fund’s IRR performance will also be benchmarked against peer groups in the Venture Economics, Inc. Vintage Year Private Equity Database. These return comparisons will be net of underlying partnership fees and expenses, but gross of the fund-of-funds’ fees and expenses. It is expected that the vehicles will attain performance rankings consistent with the top-quartile levels of return evidenced in the database.

Attainment of these objectives does not guarantee future investment by the Board in a specific manager’s fund-of-funds vehicles, nor does failure to achieve these guidelines ensure a lack of future investment support for follow-on vehicles. Providers are selected at the discretion of the Board.

In addition, the following stipulation(s) apply:

- The Fund’s assets invested in the fund-of-funds vehicle should not represent more than 20% of the total market value of the fund-of-funds. It is also preferred that this holds true for any other investor in these fund-of-funds. Should MCERA utilize a single client fund-of-funds approach (i.e., a “fund-of-one” where MCERA represents 100% of the

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vehicle's capitalization) the targeted commitment level should not exceed 20% of the managing/controlling entity's total discretionary assets under management.

- The investment manager of the fund-of-funds vehicle shall be a Bank or a registered investment advisor under the Investment Advisors Act of 1940.
- If the fund-of-funds vehicle provides distributions in cash or securities, the Fund will opt to receive cash.

### Reporting Requirements

Reporting requirements will be governed by the fund-of-funds legal documentation, which at a minimum will provide for quarterly unaudited financial statement and other relevant investment holdings related exhibits, and annual audited financial statements and relevant investment holdings-related exhibits.

It is expected that the fund-of-funds investment managers will meet with the Board as reasonably requested and at least annually.

### Coordination with Total Fund Performance Reporting

MCERA relies on its custodian to generate short-term time-weighted performance statistics. This information is utilized by the Fund's investment consultant to evaluate ongoing investment performance. An integral part of the performance evaluation is a comparison of the total Fund's return in relation to a policy benchmark index comprised of market indices weighted in the same manner as the Fund's strategic asset allocation policy.

Given the private market nature of private equity investments and the long lead-time associated with such investments, a public market equity index shall be used in lieu of the absolute return target index set forth in Appendix A for the private equity component of the total portfolio. The index used shall be a composite of the equity component of MCERA's total policy benchmark: 60% Russell 3000 and 40% MSCI ACWI ex-US IMI.

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## **DUTIES OF RESPONSIBLE PARTIES**

### **Duties of the MCERA Board of Retirement**

The Board of Retirement has the responsibility for administration of MCERA for the benefit of plan participants. The County Employees' Retirement Law of 1937, Government Code Chapter 3, Part 3, Division 4, Title 3, Article 5, permits the Board of Retirement at its discretion to invest the assets of the Plan through the purchase, holding or sale of any form or type of investment, financial instrument or financial transaction when prudent in the informed opinion of the Board. Although it is not the intent of the Board of Retirement to become involved in the day-to-day investment decisions, the Board or its designee(s) will adhere to the following procedures in the management of MCERA's assets:

- The Board develops and approves guidelines for the execution of MCERA's investment program. Only the Board in its sole discretion can delegate its decision-making authority regarding the investment program. Staff is responsible for the timely implementation and administration of these decisions.
- A formal review of MCERA's investment structure, asset allocation and financial performance will be conducted annually or more frequently as the need arises. The review will include recommended adjustments to the long-term strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or MCERA's financial condition.
- The Board shall review MCERA's investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The source of information for these reviews shall come from Staff, outside consultants, the custodian and MCERA's investment managers.
- The Chairperson of the Board will appoint an Investment Committee, comprised of the County Director of Finance and such other members as selected by the Chairperson. The Chairperson shall act as the Ex-officio member. Each member of the Board shall be an Ex-officio member of the Investment Committee to assure that an alternate committee person is readily available.
- The Board may retain investment consultants to provide services such as conducting performance reviews, asset allocation, manager reviews and investment research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Board in making informed, prudent decisions.
- Trustees shall direct questions from managers regarding MCERA's Investment Policy or other matters relating to the Plan to the Retirement Administrator and/or investment consultant.

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- The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed. Reviews for separate portfolios managed by external managers will focus on:
    1. Written certification of manager compliance to the Policy guidelines.
    2. Material changes in the managers' organizations, such as investment philosophy, personnel changes, acquisitions or losses of major accounts, etc. The managers will be responsible for keeping MCERA advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
    3. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines.
  - The Board shall expect Staff to administer MCERA's investments in a cost-effective manner subject to Board approval. These costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to MCERA.
  - The Board shall be responsible for selecting a qualified custodian with advice from Staff.

*The Board shall perform due diligence on each new manager prior to funding, and on each existing manager in accordance with the Due Diligence policy found at <http://www.co.marin.ca.us/depts/RT/main/Policies/Policies.cfm>.*

- To maintain and strengthen the investment management of MCERA's Plan, Staff and Board members shall be expected to participate in educational conferences/seminars related to their direct responsibility for the investment activities of MCERA in accordance with the Education Policy found at <http://www.co.marin.ca.us/depts/RT/main/Policies/Policies.cfm>.

### **Duties of the Staff**

The Retirement Staff, as designated by the Board, plays a significant role in the management and oversight of the Plan. Staff duties include:

- Authority to invest the Fund's cash without requiring Board permission, and as set forth elsewhere in MCERA's Investment Policy.
- Monitoring investment managers for adherence to appropriate policies and guidelines.
- Evaluating and managing the relationships with the consultants to the Fund to ensure that they are providing all the necessary assistance to Staff and the Board as set forth in their service contracts.
- Conducting manager searches, as set forth in this document, with necessary assistance from consultants as directed by the Board.

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- Restructuring portfolios following manager terminations with the assistance of consultants and managers, as needed.
  - Organizing and/or participating in any special research required to manage the Plan more effectively or in response to any questions raised by Board members.
  - Supporting the Board in the development and approval of the Investment Plan, implementing and monitoring the Plan, and reporting at least monthly on investment activity and matters of significance.
  - Assisting with the negotiation of investment manager fees when needed.
  - Ensuring that investment managers conform to the terms of their contracts and that their performance monitoring systems are sufficient to provide the Board with timely, accurate and useful information.

### **Duties of the Investment Managers**

The investment managers shall:

- Provide the Plan with a written agreement to invest within the guidelines established in the Investment Policy.
- Provide the Plan with proof of liability and fiduciary insurance coverage. Updated policy information will be provided to MCERA upon renewal and/or changes to the policy.
- Be a SEC-Registered Investment Advisor under the 1940 Act, and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
- Adhere to the investment management style concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, developing buy, hold and sell lists, and purchasing and selling securities.
- Execute all transactions for the benefit of the Plan with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Plan, and, where appropriate, facilitate the recapture of commissions on behalf of the Plan.
- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian.
- Submit written certification to the Retirement Administrator on the adherence to these investment guidelines at the end of each calendar quarter.
- Maintain frequent and open communication with Staff and the Board on all significant matters pertaining to the Investment Policy, including, but not limited to, the following:

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- Major changes in the investment manager’s investment outlook, investment strategy and portfolio structure;
  - Significant changes in ownership, organizational structure, financial condition or senior personnel;
    - Any changes in the portfolio manager or client servicing personnel assigned to the Plan;
    - Each significant client which terminates its relationship with the investment manager, within 30 days of such termination; and
    - All pertinent issues which the investment manager deems to be of significant interest or material importance.
  - Meet with the Board or its designee(s) on an as-needed basis.

#### **Duties of the Private Equity Investment Managers**

The private equity investment manager shall:

- Be a SEC-Registered Investment Advisor under the 1940 Act.
- Adhere to the investment management style concepts and principles set forth in the legal documentation of the relevant investment vehicle.
- Submit written certification to the Retirement Administrator of the performance of the relevant investment vehicle at the end of each calendar quarter, to the extent measurable.
- Shall agree or cause the General Partners, Manager or other controlling party to the investment vehicle to agree to meet with the Board or its designee(s) on an as-needed basis and at least annually.

#### **Duties of the Master Custodian**

The master custodian shall be responsible for the following:

- Provide complete global custody and depository services for the designated accounts.
- Manage, if directed by the Board, a Short Term Investment Fund (STIF) for investment of any cash not invested by managers, and ensure that all available cash is invested. If the cash reserves are managed externally, full cooperation must be provided.

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- Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers. If certain portfolios are custodied elsewhere, full cooperation must be provided.
  - Collect all income and principal realizable and properly report it on the periodic statements.
  - Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
  - Report to MCERA situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
  - Provide assistance to the Plan to complete such activities as the annual audit, transaction verification or other issues as required by the Board.
  - Manage a securities lending program to enhance income if directed by the Board. If the securities lending program is managed externally, full cooperation must be provided.
  - Securities transactions shall be settled under the contractual method.
  - The use of due bills or substitute securities is expressly forbidden.

#### **Duties of the General Investment Consultant**

The investment consultant will act as a fiduciary for all services provided to MCERA. The Investment Consultant shall be responsible for the following:

- Make recommendations to the Board regarding investment policy and strategic asset allocation.
- Assist MCERA in the selection of qualified investment managers and sponsors of limited liability partnerships, limited liability corporations, group trusts or other commonly used investment vehicles and assist in the oversight of existing managers and said sponsors, including monitoring changes in personnel, ownership and their investment process.
- Assist in the selection of a qualified custodian (including a securities lending agent and/or a cash manager) if necessary.
- Prepare a quarterly performance report including performance attribution on MCERA's managers and total assets, a check on guideline compliance and adherence to investment style and discipline.
- Provide topical research and education on investment subjects that are relevant to MCERA.

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- Assist with the negotiation of investment management, private equity manager and custodian fees.

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**APPENDIX A**  
**MCERA'S LONG-TERM STRATEGIC ASSET ALLOCATION TARGETS AND RANGES**

The strategic asset allocation targets have been developed as a function of the returns and risks of various asset classes and a rigorous analysis of MCERA's liabilities, taking into account the Board's risk tolerance and long-term objectives. As asset class values change over time, deviations from the asset allocation targets may occur. Rebalancing the portfolio may be necessary to return the asset class allocations to targeted weights so as to ensure that the Board's intended strategy is consistently maintained over time. Rebalancing actions are the responsibility of the Staff and shall be reported to the Board on a periodic basis.

Staff is authorized and directed (in the normal course of events) to act in accordance with this policy. Where particular circumstances arise and Staff determines rebalancing is not prudent, because doing so may generate unnecessary costs or otherwise not be in the best interests of MCERA, a full report of the actions taken or not taken shall be made to the Board at the earliest opportunity.

The primary means of controlling deviations from asset class target weights is through allocation of cash flows generated from the portfolio. That is, net cash inflows may be allocated to asset classes that are underweight, while cash requirements may be funded from cash flow generated by or through the redemption or sale of assets that are overweight. The costs of investment/redemption shall be taken into account when determining reallocations of assets.

MCERA's actual asset allocation shall be reviewed at the end of each month at a minimum and shall be based on current asset valuations. Estimated values may be used when current asset valuations are not available.

By using statistical models and employing a diversified portfolio strategy, MCERA seeks to create an efficient frontier, which is an optimal portfolio profile that accomplishes the lowest possible level of risk for a certain level of return. While asset allocation targets are an essential part of MCERA's investment policy, the inputs used to develop these benchmarks are not known with certainty. Indeed, the targets were derived using estimates of future returns and estimates of the risk of loss for each asset class. Because future results are only estimates based on historical returns and volatility for each asset class, a range of different allocations other than the target percentage may be statistically identical in risk-return terms to the targeted benchmark even though the actual allocations may be outside of the targeted percent. Thus, the efficient frontier is really a range of targeted allocations, rather than a strict target percent of asset allocations in a portfolio. In other words, the portfolio is on the efficient frontier if the allocations to each asset class are within a range around the target allocations.

The strategic policy asset allocation and rebalancing triggers are set out in the table below:

<b>Asset Class</b>	<b>Target Percent</b>	<b>Allowable Range</b>
<b><i>US Equity</i></b>	<b>33.0%</b>	<b>29.0% - 37.0%</b>
Large Cap Core	13.2%	11.2% - 15.2%
Large Cap Value	6.6%	5.6% - 7.6%
Large Cap Growth	6.6%	5.6% - 7.6%
Small Cap Value	3.3%	2.8% - 3.8%
Small Cap Growth	3.3%	2.8% - 3.8%
<b><i>Non-US Equities</i></b>	<b>21.0%</b>	<b>18.0% - 24.0%</b>
International Large Cap Value	7.5%	6.5% - 8.5%
International Large Cap Growth	7.5%	6.5% - 8.5%
International Small Cap Core	3.0%	2.5% - 3.5%
International Emerging Markets	3.0%	2.5% - 3.5%
<b><i>US Fixed Income</i></b>	<b>26.0%</b>	<b>23.0% - 29.0%</b>
Core Plus	26.0%	23.0% - 29.0%
<b><i>Real Estate</i></b>	<b>12.0%</b>	<b>8.0% - 16.0%</b>
<b><i>Private Equity</i></b>	<b>8.0%</b>	<b>0.0%-12.0%*</b>

\* MCERA acknowledges that because of the nature of private equity investment, it may take several years to fund the private equity allocations and during the initial funding period, its allocation to private equity in market value terms may fall below the 8% target. During the initial funding period, as a proxy for private equity, MCERA intends to keep the assets committed to private equity partnerships invested in domestic and international equity. The result will be overweights in both of these asset classes relative to the long-term targets described above.

The following principles apply when asset allocations are outside the allowable ranges noted above:

1. Cash held by MCERA and cash awaiting investment in private equity investments or other alternative investments may be securitized with exchange-traded futures to the underweight asset class by MCERA's overlay manager. The use of derivative instruments is permitted as long as it does not create economic leverage in the portfolio and the instruments comply with the Derivatives section of this investment policy.
2. In order to rebalance as efficiently as possible and save transactions costs, allocations may be brought back by 50% of the difference between the current position and its target percentage, rather than exactly to the target percentage as long as the rebalancing brings the allocation back within the allowable range.

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3. Real Estate and Private Equity, because of their illiquid nature, are very costly to rebalance. MCERA's Staff will make reasonable attempts to keep these asset classes within the allowable ranges defined above. Given their illiquidity, the risk of these asset classes moving outside of the allowable ranges for an extended period is heightened. In these cases, MCERA's Staff will document a plan to rebalance the allocations within the allowable ranges in the most timely and cost efficient manner possible given market and other conditions. It is noteworthy that the risk of these asset classes drifting outside of the efficient frontier is mitigated by the relatively small exposure to these classes as a percentage of the entire portfolio.
  4. When physical securities are traded, assets will be moved between investment managers in accordance with the following principles:
    - a) Assets will be taken from investment managers in the overweight asset class(es) with consideration given to asset class structure, investment manager target weights, and confidence in the investment managers themselves. With respect to private equity and real estate allocations, the illiquid nature of these classes will be taken into account and trading will normally be avoided where possible.
    - b) Primary emphasis should be on significantly different asset classes (e.g. equity vs. fixed income).
    - c) Assets will be directed to investment managers in the underweight asset class(es) with consideration given to the same factors listed above.

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**APPENDIX B - 1**  
**STATE STREET GLOBAL ADVISORS**  
**S&P 500 INDEX FUND (LARGE CAP CORE)**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

**Investment Approach**

The objectives of the S&P 500 Index Fund are to provide returns consistent with the US equity market as measured by the S&P 500 Index.

**Performance Objectives**

- Match the return, net of management fees, of the S&P 500 Index over a complete market cycle.
- Minimize tracking error relative to the S&P 500 Index..

**Investment Guidelines**

- MCERA is responsible for determining that its investment in the S&P 500 Index Fund is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees' Retirement Association. State Street Global Advisors shall invest within the scope of its style as stated in the governing documents for the fund.

Any material violation of these Investment Manager Guidelines is to be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

**Reporting Requirements**

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA's Investment Consultant.
- Quarterly – Same as monthly plus, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.
- State Street Global Advisors will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance

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- State Street Global Advisors will keep MCERA apprised of relevant information regarding its organization and personnel. SSgA will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 2**  
**DODGE & COX**  
**DOMESTIC LARGE CAP VALUE EQUITY**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

Dodge & Cox seeks to add value through an emphasis on independent research and fundamental analysis, and to reduce portfolio risk through diversification. The firm is a long-term investor, and seeks to remain fully invested. Dodge & Cox may purchase out-of-favor companies that represent value opportunities, and typically include in their portfolio well-established companies whose positive earnings prospects are not reflected in the current price.

Performance Objectives

- Exceed the return, net of management fees, of the S&P 500 Index over a complete market cycle.
- Perform in the top half of a peer universe of large cap value equity managers over a complete market cycle.

Investment Guidelines

- All investments are subject to compliance with the Investment Policies, Objectives and Guidelines for the Marin County Employees' Retirement Association, with applicable State and Federal statutes, and shall be managed in a diversified and prudent manner. The manager shall invest within the scope of their stated style.
- Sector and security selection, portfolio structure and timing of purchase and sales are delegated to the manager subject to the investment management contract.
- The following transactions are prohibited: short sales, selling on margin, writing options other than covered options, and "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA).
- Transactions shall be executed on the basis of "best price and execution" for the sole benefit of the Marin County Employees' Retirement Association's beneficiaries.
- The use of foreign equity instruments which trade on U.S.-based exchanges or on NASDAQ, including American Depositary Receipts (ADRs), are acceptable as domestic equity investments but shall not constitute more than 20% of the portfolio (at time of purchase).
- The use of other non-U.S. equity securities is prohibited.
- Dodge & Cox is expected to remain fully invested. The cash holdings should not exceed 10% of the market value in the portfolio.

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- Dodge & Cox shall not purchase stock (or securities convertible into stock) of any single issuer if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock, or more than 5% in (market) value of all outstanding securities of single issuer (assuming all shares are converted).
  - Dodge & Cox shall not purchase private placements.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

#### Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.
- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs. These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
- Review every month transaction data with custodian reports, and communicate and resolve any significant discrepancies with the custodian.
- Dodge & Cox will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- Dodge & Cox will keep MCERA apprised of relevant information regarding its organization and personnel. Dodge & Cox will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 3**  
**RCM GLOBAL INVESTORS**  
**DOMESTIC LARGE CAP GROWTH EQUITY**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

RCM's Large Cap Select Growth investment approach is a high quality, growth strategy that seeks to generate superior returns over a full market cycle by investing primarily in U.S. companies that possess superior management, strong balance sheets, differentiated products or services, substantial unit growth, strong commitments to research and development and a steady stream of new products or services. Central to RCM's equity philosophy is their belief that rigorous fundamental research of securities combined with a disciplined valuation methodology will enable their portfolio to outperform their benchmarks with a below-average risk profile.

Performance Objectives

- Exceed the return, net of management fees, of the Russell 1000 Growth Index over a complete market cycle.
- Perform in the top half of a peer universe of large cap growth equity managers over a complete market cycle.

Investment Guidelines

- All investments are subject to compliance with the Investment Policies, Objectives and Guidelines for the Marin County Employees' Retirement Association, with applicable State and Federal statutes, and shall be managed in a diversified and prudent manner. The manager shall invest within the scope of their stated style.
- Sector and security selection, portfolio structure and timing of purchase and sales are delegated to the manager subject to the investment management contract.
- The following transactions are prohibited: short sales, selling on margin, writing options other than covered options, and "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA).
- Transactions shall be executed on the basis of "best price and execution" for the sole benefit of the Marin County Employees' Retirement Association's beneficiaries.
- The use of foreign equity instruments which trade on U.S.-based exchanges or NASDAQ, including American Depositary Receipts (ADRs), are acceptable as domestic equity investments but shall not constitute more than 15% of the portfolio (at cost).
- The use of other non-U.S. equity securities is prohibited.

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- RCM is expected to remain fully invested. The cash holdings should not exceed 10% of the market value in the portfolio.
  - RCM shall not purchase stock (or securities convertible into stock) of any single issuer if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock, or more than 5% in (market) value of all outstanding securities of single issuer (assuming all shares are converted).
  - RCM shall not purchase private placements.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

#### Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.
- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs. These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
- Review every month transaction data with custodian reports, and communicate and resolve any significant discrepancies with the custodian.
- RCM will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- RCM will keep MCERA apprised of relevant information regarding its organization and personnel. RCM will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 4**  
**DIMENSIONAL FUND ADVISORS**  
**DOMESTIC SMALL CAP VALUE EQUITY**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

DFA's small cap value product purchases companies that are in the bottom 8% of capitalization of the overall US equity market and also have a price-to-book ratio in the bottom 25% of this capitalization segment.

Performance Objectives

- Exceed the return, net of management fees, of the Russell 2000 Value Index over a complete market cycle.
- Perform in the top half of a peer universe of small cap value equity managers over a complete market cycle.

Investment Guidelines

- The DFA Group Trust (the "Group Trust"), of which the Small Cap Value Subtrust (the "Subtrust") is a part, is an unregistered commingled trust vehicle organized under the laws of the State of Illinois and governed by an Agreement of Trust Creating The DFA Group Trust Amended and Restated through February 1, 2001 (the "Agreement"). The Group Trust is subject to provisions of the Employee Retirement Income Security Act, as amended ("ERISA"). The Agreement governs all aspects of investment with respect to the Subtrust, including an ERISA-mandated standard of care.
- MCERA is responsible for determining that its investment in the Subtrust is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees' Retirement Association. The Manager shall invest within the scope of its style as stated in the Agreement.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

Reporting Requirements

- Monthly – Asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA's Investment Consultant.

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- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs. These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
  - DFA will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
  - DFA will keep MCERA apprised of relevant information regarding its organization and personnel. DFA will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 5**  
**COLUMBUS CIRCLE INVESTORS**  
**DOMESTIC SMALL CAP GROWTH EQUITY**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

Columbus Circle Investors (CCI) seeks to invest in good companies that are doing better than expected by focusing on both positive momentum and positive surprise. However, emphasis is on companies that are lesser known, smaller businesses providing new technologies, products or services.

Performance Objectives

- Exceed the return, net of management fees, of the Russell 2000 Growth Index over a complete market cycle.
- Perform in the top half of a peer universe of small cap growth equity managers over a complete market cycle.

Investment Guidelines

- All investments are subject to compliance with the Investment Policies, Objectives and Guidelines for the Marin County Employees' Retirement Association, with applicable State and Federal statutes, and shall be managed in a diversified and prudent manner. The manager shall invest within the scope of their stated style.
- Sector and security selection, portfolio structure and timing of purchase and sales are delegated to the manager subject to the investment management contract.
- The following transactions are prohibited: short sales, selling on margin, writing options other than covered options, and "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA).
- Transactions shall be executed on the basis of "best price and execution" for the sole benefit of the Marin County Employees' Retirement Association's beneficiaries.
- The use of foreign equity instruments which trade on U.S.-based exchanges or on NASDAQ, including American Depositary Receipts (ADRs), are acceptable as domestic equity investments but shall not constitute more than 15% of the portfolio (at market). Companies headquartered in the US will be considered domestic even if they are incorporated in a foreign jurisdiction.
- The use of other non-U.S. equity securities is prohibited.

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- The portfolio is expected to remain fully invested. The cash holdings should not exceed 10% of the market value in the portfolio.
  - CCI shall not purchase stock (or securities convertible into stock) of any single issuer if the purchase would cause this portfolio to include more than 5% of the outstanding voting stock, or more than 5% in (market) value of all outstanding securities of single issuer (assuming all shares are converted).
  - CCI shall not purchase private placements unless authorized by the Board.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

#### Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.
- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs. These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
- Review every month transaction data with custodian reports, and communicate and resolve any significant discrepancies with the custodian.
- CCI will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- CCI will keep MCERA apprised of relevant information regarding its organization and personnel. Columbus Circle will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 6**  
**MORGAN STANLEY INVESTMENT MANAGEMENT**  
**NON U.S. VALUE EQUITY**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

**Investment Approach**

Morgan Stanley uses a value-driven, bottom-up approach to maximize return potential, combined with sufficient diversification to minimize investment risk. MSIM believes that longer-term investors can take advantage of pricing anomalies by purchasing stocks of companies that are currently underpriced and by selling them before their prices reach excessive levels. In addition, they believe that fundamental research is the key to identifying such companies with a high degree of confidence on a timely basis.

**Performance Objectives**

- Exceed the return, net of management fees, of the MSCI EAFE Index over a complete market cycle.
- Perform in the top half of a peer universe of Non-U.S. value equity managers over a complete market cycle.

**Investment Guidelines**

- The Morgan Stanley International Equity Trust is subject to provisions of the Employee Retirement Income Security Act, as amended (“ERISA”). The Agreement governs all aspects of investment with respect to the Trust, including an ERISA-mandated standard of care.
- MCERA is responsible for determining that its investment in the Trust is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees’ Retirement Association. The Manager shall invest within the scope of its style as stated in the Agreement.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

**Reporting Requirements**

- Monthly – Asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.

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- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs (to be provided annually). These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
  - Morgan Stanley will meet with the MCERA Board as often as deemed necessary by MCERA. A representative of Morgan Stanley will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
  - Morgan Stanley will keep MCERA apprised of relevant information regarding its organization and personnel. Morgan Stanley will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 7**  
**THE ARTISAN INTERNATIONAL FUND**  
**NON U.S. GROWTH EQUITY**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

**Investment Approach**

The Artisan International Fund uses a fundamental bottom-up investment process to construct a diversified portfolio of international growth companies regardless of market capitalization, concentrating on industries or themes that the investment team believes present long-term growth opportunities and companies that are well positioned to capitalize on that growth. The portfolio has a primary emphasis on developed markets but also invests in emerging markets and is constructed without regard to index weightings.

**Performance Objectives**

- Exceed the return, net of management fees, of the MSCI EAFE Index over a complete market cycle.
- Perform in the top half of a peer universe of Non-U.S. growth equity managers over a complete market cycle.

**Reporting Requirements**

- Monthly – Asset (portfolio) statement and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.
- Quarterly – Same as monthly plus performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception. These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
- A representative of the Artisan International Fund will meet with the MCERA Board as often as deemed necessary by MCERA. A representative will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the fund and its performance.
- The Artisan International Fund will keep MCERA apprised of relevant information regarding its organization and personnel. The fund or its representative will notify MCERA promptly of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 8**  
**PYRAMIS GLOBAL ADVISORS**  
**SELECT INTERNATIONAL SMALL CAP**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

The Pyramis Select International Small Cap commingled fund is a risk-controlled core discipline that capitalizes on Fidelity's fundamental research by combining qualitative stock selection with quantitative risk control. The portfolio is constructed in a modular fashion, combining the four regional sub-portfolios in the U.K., Continental Europe, Japan, and Pacific Basin ex-Japan.

Performance Objectives

- Exceed the return, net of management fees, of the S&P/Citigroup Extended Market Index ex-U.S. over a complete market cycle.
- Perform in the top half of a peer universe of International Small Cap equity managers over a complete market cycle.

Investment Guidelines

- MCERA is responsible for determining that its investment in Pyramis Select International Small Cap commingled fund is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees' Retirement Association. Pyramis shall invest within the scope of its style as stated in the governing documents for the fund.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

Reporting Requirements

- Monthly – Asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA's Investment Consultant.
- Quarterly – Same as monthly plus performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.
- A representative of Pyramis will meet with the MCERA Board as often as deemed necessary by MCERA. A representative will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the fund and its performance.

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- Pyramis will keep MCERA apprised of relevant information regarding its organization and personnel. The fund or its representative will notify MCERA promptly of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 9**  
**WELLINGTON MANAGEMENT COMPANY**  
**CORE PLUS FIXED INCOME**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

Wellington will invest in a diversified portfolio of investment grade and below investment grade fixed income securities. Wellington will add value primarily from sector and issue selection decisions. Interest rate anticipation and duration management will play a limited role in the portfolio.

Performance Objectives

- Exceed the return, net of management fees, of the Barclays Capital Aggregate Index over a complete market cycle.
- Perform in the top half of a peer universe of core plus fixed income managers over a complete market cycle.

Investment Guidelines

- All investments are subject to compliance with the Investment Policies, Objectives and Guidelines for the Marin County Employees' Retirement Association, with applicable State and Federal statutes, and shall be managed in a diversified and prudent manner. The manager shall invest within the scope of their stated style.
- Sector and security selection, portfolio structure and timing of purchase and sales are delegated to the manager subject to the investment management contract.
- The following transactions are prohibited: short sales where securities are borrowed solely for the purpose of shorting, selling on margin, and "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA).
- Transactions shall be executed on the basis of "best price and execution" for the sole benefit of the Marin County Employees' Retirement Association's beneficiaries.
- The duration on the portfolio shall range between 75% - 125% of the duration on the Barclays Capital Aggregate Index.
- MCERA expects its domestic fixed income investment managers to maintain diversified portfolios by sector and by issuer. No more than 5% of the portfolio shall be invested with a single investment grade issuer other than obligations of the US Government and its agencies. No more than 2% of the portfolio shall be invested with a single below investment grade issuer.

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- Futures, options, swaps, forwards and other derivative securities are permitted investments. Any use of these instruments by Wellington will be in a non-leveraged manner, defined as follows:
    - The use of financial leverage is prohibited. The Account will not be considered leveraged as a result of authorized derivative positions provided the Account maintains cash and securities at least equal to the value of the obligations created by its net derivative positions in order to cover the obligations created by such positions.
  - Wellington may invest up to 20% of the portfolio in securities rated below investment grade by all three of the major credit rating agencies. In the case of split ratings in which the three agencies have different ratings, the highest rating will be used in determining the credit rating of the security. If an issue is unrated, then an equivalent credit rating, as deemed by Wellington Management, may be used.
  - Wellington may invest up to 20% of the portfolio in non-dollar denominated securities and currencies. The Portfolio may take currency positions unrelated to underlying portfolio holdings.
    - Non-dollar securities may be held on a currency hedged or un-hedged basis. The portfolio may invest in currency exchange transactions on a spot or forward basis. Both long and short currency exposures are permissible.
    - With respect to the 20% non-dollar investment limitation listed above, the Investment Manager may take effective foreign currency exposure up to 20% of the total portfolio (e.g. the entire non-dollar portfolio may be unhedged). Foreign currency exposure will be based on the absolute value of all positions (long and short) versus the dollar, except in the case of same country and currency exposures where these can be netted. Both long and short foreign currency positions may be held without owning securities denominated in such currencies.
  - Wellington may invest up to 20% of the portfolio in private placements, including those issued pursuant to Rule 144A and/or Reg S and other restricted securities, the liquidity of which Wellington Management deems consistent with the Portfolio's investment objective.
  - Wellington will maintain an average weighted credit quality of not more than 2 rating notches below the benchmark's average weighted credit quality, at all times. For the avoidance of doubt, if the benchmark is rated AA-, then 2 notches below would be A.
    - Ratings method: The ratings method used to test both the benchmark's average credit rating and the portfolio's average credit rating will be "split to the highest rating" of the three major rating agencies.
  - Investment in mortgage interest only (IO), principal only (PO), inverse floaters or other CMO derivatives that have highly uncertain or volatile duration or price movements are limited to 5% of the market value of the portfolio.
  - Bank loans are permitted investments

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- All percentage limits refer to “at time of purchase.”

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

#### Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.
- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs. These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
- Review every month transaction data with custodian reports, and communicate and resolve any significant discrepancies with the custodian.
- Wellington will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- Wellington will keep MCERA apprised of relevant information regarding its organization and personnel. Wellington will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 10**  
**WESTERN ASSET MANAGEMENT**  
**CORE PLUS FIXED INCOME**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

Western will invest in a diversified portfolio of investment grade and below investment grade fixed income securities. Western will add value primarily from sector and issue selection decisions. Interest rate anticipation and duration management will play a limited role in the portfolio.

Performance Objectives

- Exceed the return, net of management fees, of the Barclays Aggregate Index over a complete market cycle.
- Perform in the top half of a peer universe of core plus fixed income managers over a complete market cycle.

Investment Guidelines

- All investments are subject to compliance with the Investment Policies, Objectives and Guidelines for the Marin County Employees' Retirement Association, with applicable State and Federal statutes, and shall be managed in a diversified and prudent manner. The manager shall invest within the scope of their stated style.
- Sector and security selection, portfolio structure and timing of purchase and sales are delegated to the manager subject to the investment management contract.
- The following transactions are prohibited: short sales where securities are borrowed solely for the purpose of shorting, selling on margin, and "prohibited transactions" as defined under the Employee Retirement Income Security Act (ERISA).
- Transactions shall be executed on the basis of "best price and execution" for the sole benefit of the Marin County Employees' Retirement Association's beneficiaries.
- The duration on the portfolio shall range between 75% - 125% of the duration on the Barclays Aggregate Index.
- MCERA expects its domestic fixed income investment managers to maintain diversified portfolios by sector and by issuer. No more than 5% of the portfolio shall be invested with a single investment grade issuer other than obligations of the US Government and its agencies. No more than 2% of the portfolio shall be invested with a single below investment grade issuer.

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- Futures, options, and swaps are permitted investments. Any use of these instruments by Western will be in a non-leveraged manner.
  - Western may invest up to 20% of the portfolio in securities rated below investment grade by all three of the major credit rating agencies. In the case of split ratings in which the three agencies have different ratings, the highest rating will be used in determining the credit rating of the security. If an issue is unrated, then an equivalent credit rating, as deemed by Western Asset Management, may be used..
  - Western may invest up to 20% of the portfolio in non-dollar denominated securities.
    - Non-dollar securities may be held on a currency hedged or un-hedged basis. The portfolio may invest in currency exchange transactions on a spot or forward basis. Both long and short currency exposures are permissible.
    - With respect to the 20% non-dollar investment limitation listed above, the Investment Manager may take effective foreign currency exposure up to 20% of the total portfolio (e.g. the entire non-dollar portfolio may be unhedged). Foreign currency exposure will be based on the absolute value of all positions (long and short) versus the dollar, except in the case of same country and currency exposures where these can be netted. Both long and short foreign currency positions may be held without owning securities denominated in such currencies.
  - Western may invest up to 20% of the portfolio in 144A securities.
  - Western will maintain an average weighted credit quality of not more than 2 rating notches below the benchmark's average weighted credit quality, at all times. For the avoidance of doubt, if the benchmark is rated AA-, then 2 notches below would be A.
    - Ratings method: The ratings method used to test both the benchmark's average credit rating and the portfolio's average credit rating will be "split to the highest rating" of the three major rating agencies.
  - Investment in mortgage interest only (IO), principal only (PO), inverse floaters or other CMO derivatives that have highly uncertain or volatile duration or price movements are prohibited.
  - Bank loans are permitted investments.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

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## Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.
- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception, and review of transactions costs. These will be sent to MCERA’s Retirement Administrator and MCERA’s Investment Consultant.
- Review every month transaction data with custodian reports, and communicate and resolve any significant discrepancies with the custodian.
- Western will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- Western will keep MCERA apprised of relevant information regarding its organization and personnel. Western will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 11**  
**THE CLIFTON GROUP**  
**POLICY IMPLEMENTATION OVERLAY SERVICE**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

The Clifton Group will use futures contracts to “securitize” cash investments in the portfolio.

Performance Objectives

- Produce returns approximately equal to the Fund’s total fund benchmark.

Investment Guidelines

- All investments are subject to compliance with the Investment Policies, Objectives and Guidelines for the Marin County Employees’ Retirement Association, with applicable State and Federal statutes, and shall be managed in a diversified and prudent manner. The manager shall invest within the scope of their stated style.
- Security selection and timing of purchase and sales are delegated to the manager subject to the investment management contract.
- The following transactions are prohibited: short sales, selling on margin, writing options other than covered options, and “prohibited transactions” as defined under the Employee Retirement Income Security Act (ERISA).
- Transactions shall be executed on the basis of “best price and execution” for the sole benefit of the Marin County Employees’ Retirement Association’s beneficiaries.
- Futures contracts on equities and fixed income are permitted in order to “securitize” existing cash positions. Futures are not to be used for speculative purposes.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA’s Investment Consultant.
- Quarterly – Same as monthly plus written certification of compliance with guidelines, performance of the portfolio and benchmark for the quarter, year-to-date, one year, three

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years, five years and since inception, and review of transactions costs. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.

- Review every month transaction data with custodian reports, and communicate and resolve any significant discrepancies with the custodian.
- The Clifton Group will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- The Clifton Group will keep MCERA apprised of relevant information regarding its organization and personnel. The Clifton Group will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 12**  
**WOODMONT REALTY ADVISORS, INC.**  
**REAL ESTATE PORTFOLIO**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

In general, the Board desires to obtain the optimum return on the portfolio consistent with the assumption of prudent risk. While safety of principal is given primary consideration, the Board recognizes the need to use active asset management in order to obtain the highest attainable total investment return (income plus appreciation) within the framework of prudence and managed risk.

Real estate investments of MCERA shall be made in a manner consistent with the fiduciary standards of the prudent investor rule: (1) to safeguard and diversify the real estate portfolio; and, (2) for the sole interest of the participants and their beneficiaries. Woodmont shall implement the investment policy consistent with this Statement of Objectives, Guidelines and Procedures (“Statement”) and the Investment Advisory and Property Management Agreement dated April 1, 1987 (“Agreement”).

Woodmont, acting pursuant to the terms of the Agreement shall manage the real estate portfolio and make recommendations to MCERA related to the acquisition and disposition of real estate properties in accordance with this Statement.

Performance Objectives

- Total Return- Over rolling 5-year periods, the equity real estate investment portfolio is expected to generate total returns comparable to the NCREIF Index.
- Minimum Going-In Yields – Woodmont’s five (5) year Internal Rate of Return (net of fees) projection for any single asset will exceed the ten year yield on U.S. Treasury bond, at the time of acquisition by no less than 150 basis points. Given a market cycle in which this yield test cannot be met, MCERA will review the real estate allocation to new acquisitions in light of the current market and achievable risk adjusted returns.

Investment Criteria

- All assets must be of institutional investment quality as evidenced by a precedent of institutional investment in similar properties; expert analysis which supports the economic viability of the market; quality construction and design features and a current or potentially competitive position within the property’s immediate market area.
- The real estate portfolio will be comprised of direct investments in investment grade properties located in Northern California. Diversification by property type and sub-market should be considered in the construction of the real estate portfolio.
- Investments in real estate shall be all cash or subject to existing non-recourse mortgages.

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- No single investment property on a cost basis may exceed 5% of MCERA Plan assets.
  - The purchase and sale of real estate shall be by six affirmative votes of the Board of Retirement. The Board may authorize the use of a seller carry-back deed of trust if the terms of the trust are acceptable and consistent with the risk and return objectives of the portfolio.

#### Reporting Requirements

- Woodmont will provide an annual report to the Board detailing the portfolio strategy for the upcoming year.
- Woodmont will provide monthly and quarterly reports detailing portfolio activity and performance. Woodmont will acknowledge in writing each quarter compliance with these guidelines.
- Woodmont will meet with the MCERA Board as often as deemed necessary by MCERA. One of the lead portfolio managers will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- Woodmont will keep MCERA apprised of relevant information regarding its organization and personnel. Woodmont will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 13**  
**EATON VANCE**  
**TAX MANAGED EMERGING MARKETS EQUITY**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

**Investment Approach**

Parametric Portfolio Advisors subadvises the Structured Emerging Markets Fund for Eaton Vance. Eaton Vance believes that a disciplined, long-term, structure approach can efficiently participate in the systematic growth of emerging markets on a consistent and repeatable basis with lower return risk. The structured approach is based upon quantitative research at the strategic level and observation of emerging market behavior. The factors dictating the investment approach include liquidity, volatility, correlation, reversion to the mean and the importance of country size in expected returns.

**Performance Objectives**

- Exceed the return, net of management fees, of MSCI Emerging Markets Free Index over a complete market cycle.
- Perform in the top half of a peer universe of emerging markets equity managers over a complete market cycle.

**Investment Guidelines**

- MCERA is responsible for determining that its investment in Eaton Vance's Structured Emerging Markets mutual fund is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees' Retirement Association. Eaton Vance shall invest within the scope of its style as stated in the governing documents for the fund.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

**Reporting Requirements**

- Monthly – Asset (portfolio) statement and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA's Investment Consultant.
- Quarterly – Same as monthly plus performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.

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- A representative of Eaton Vance will meet with the MCERA Board as often as deemed necessary by MCERA. A representative will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the fund and its performance.
  - Eaton Vance will keep MCERA apprised of relevant information regarding its organization and personnel as well as that of Parametric Portfolio Advisor's. The fund or its representative will notify MCERA promptly of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 14**  
**CLARION PARTNERS**  
**CORE REAL ESTATE**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

**Investment Approach**

Clarion Partners Property Fund is an open-ended core real estate commingled fund. Clarion Partners strives to invest predominantly in income producing properties diversified by both geographical region and by property type.

**Performance Objectives**

- Exceed the return of the NCREIF Open-Ended Core Diversified Equity (ODCE) Index over a complete market cycle.
- Perform in the top half of a peer universe of Open-Ended Core Real Estate managers over a complete market cycle.

**Investment Guidelines**

- MCERA is responsible for determining that its investment in Clarion Partners Property Fund is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees' Retirement Association. Clarion Partners' shall invest within the scope of its style as stated in the governing documents for the Clarion Partners Property Fund.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

**Reporting Requirements**

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA's Investment Consultant.
- Quarterly – Same as monthly plus performance of the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.
- Clarion Partners will meet with the MCERA Board as often as deemed necessary by MCERA. Members of the investment team will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance

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- Clarion Partners will keep MCERA apprised of relevant information regarding its organization and personnel. ING Clarion will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 15**  
**AEW CAPITAL MANAGEMENT**  
**VALUE ADDED REAL ESTATE**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

AEW Capital Management's Partners Fund V is a closed-ended value added real estate fund.

Performance Objectives

- Exceed the return of the NCREIF Property Index over a complete market cycle.
- Perform in the top half of a peer universe of value added real estate managers over a complete market cycle.

Investment Guidelines

- MCERA is responsible for determining that its investment in the AEW Partners V Fund is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees' Retirement Association. AEW shall invest within the scope of its style as stated in the governing documents for the Partners V Fund.

Any material violation of these Investment Manager Guidelines is to be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA's Investment Consultant.
- Quarterly – Same as monthly plus performance on the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.
- AEW will meet with the MCERA Board as often as deemed necessary by MCERA. Members of the investment team will be available to meet with MCERA annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
- AEW will keep MCERA apprised of relevant information regarding its organization and personnel. AEW will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX B - 16**  
**RREEF**  
**VALUE ADDED REAL ESTATE**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

RREEF America III Fund is an open-ended value added real estate fund.

Performance Objectives

- Exceed the return of the NCREIF Property Index over a complete market cycle.
- Perform in the top half of a peer universe of value added real estate managers over a complete market cycle.

Investment Guidelines

- MCERA is responsible for determining that its investment in the RREEF America III Fund is in compliance with its Investment Guidelines (other than this document) for the Marin County Employees' Retirement Association. RREEF shall invest within the scope of its style as stated in the governing documents for the America III Fund.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery. A realized loss to the Fund resulting from a material violation of these Investment Manager Guidelines will require reimbursement of the amount of the loss by the manager.

Reporting Requirements

- Monthly – Transaction statement, asset (portfolio) statement, and performance for the portfolio and benchmark for the month will be sent to the MCERA Retirement Administrator and MCERA's Investment Consultant.
- Quarterly – Same as monthly plus performance on the portfolio and benchmark for the quarter, year-to-date, one year, three years, five years and since inception. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.
- RREEF will keep MCERA apprised of relevant information regarding its organization and personnel. RREEF will notify MCERA within 24 hours of any change in the lead personnel assigned to manage the account.

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**APPENDIX C-1**  
**PATHWAY CAPITAL MANAGEMENT**  
**PATHWAY PRIVATE EQUITY FUND 2008 (PPEF 2008)**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

Investment Approach

The Partnership's investment strategy is to create a diversified portfolio of private equity funds that pursue a variety of investment strategies, including but not limited to, buyouts, venture capital, and special situations.

Performance Objectives

- Produce returns approximately equal to or in excess of Venture Economics All Private Equity index as provided and set forth in the legal documentation of the Partnership.

Investment and other Guidelines

- All investments are subject to compliance with the investment management style concepts and principles set forth in the legal documentation of the Partnership.
- The investment manager shall at all times be a SEC-Registered Investment Advisor under the Investment Advisors Action of 1940, as amended.
- The General Partner acknowledges and agrees that the General Partner's investment in the Partnership will not exceed 20% of the Partnership's aggregate Capital Commitments of all of the Partners.

Reporting Requirements

- Reporting requirements will be governed by the Partnership' legal documentation.
- Quarterly – The investment manager shall submit written certification to the Retirement Administrator of the performance of the Partnership to the extent measurable, at the end of each calendar quarter, plus written certification of compliance with guidelines set forth herein. Performance of the portfolio, expressed in terms of the internal rate of return, once measurable for the relevant period, shall be described on a year-to-date, one year, three years, five years and since inception basis. These will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.
- The Partnership shall be prohibited from making direct investments in securities of portfolio companies which in the aggregate are in excess of 20% of the Partnership's aggregate Capital Commitments.

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- The investment manager shall meet or shall cause the General Partner of the Partnership to meet with the Board or its designee(s) annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance

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**APPENDIX C-2**  
**ABBOTT CAPITAL MANAGEMENT**  
**ABBOTT PRIVATE EQUITY FUND VI, LP**  
**STATEMENT OF OBJECTIVES, GUIDELINES & PROCEDURES**

**Investment Approach**

The Partnership's investment strategy is to create a diversified portfolio of private equity funds that pursue a variety of investment strategies, including but not limited to growth equity buyouts, venture capital, and special situations.

**Performance Objectives**

- Produce returns approximately equal to or in excess of Thomson Financial's VentureXpert indices for private equity funds indicating a United States primary market as provided and set forth in the legal documentation of the Partnership.

**Investment and other Guidelines**

- All investments are subject to compliance with the investment management style concepts and principles set forth in the legal documentation of the Partnership.
- The investment manager shall at all times be a SEC-Registered Investment Advisor under the Investment Advisors Action of 1940, as amended.
- The General Partner acknowledges and agrees that the General Partner's investment in the Partnership will not exceed 20% of the Partnership's aggregate Capital Commitments of all of the Partners.

Any material violation of these Investment Manager Guidelines shall be corrected immediately upon discovery.

**Reporting Requirements**

- Reporting requirements will be governed by the Partnership' legal documentation.
- Quarterly – The investment manager shall submit written certification to the Retirement Administrator of the performance of the Partnership to the extent measurable, at the end of each calendar quarter, plus written certification of compliance with guidelines set forth herein. Performance of the portfolio, expressed in terms of the internal rate of return, once measurable for the relevant period, shall be described on a year-to-date, one year, three years, five years and since inception basis and will be sent to MCERA's Retirement Administrator and MCERA's Investment Consultant.

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- The investment manager shall meet or shall cause the General Partner of the Partnership to meet with the Board or its designee(s) annually, or more often if deemed necessary by MCERA, to review the portfolio and its performance
  - The Partnership shall be prohibited from making direct investments in securities of portfolio companies which are in the aggregate in excess of 20% of the Partnership's aggregate Capital Commitments.

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**APPENDIX D**

**RESOLUTION 2010/11-03**

**PLACEMENT AGENT PAYMENT DISCLOSURE RESOLUTION AND POLICY**

**Adopted: December 9, 2009**

**Amended: February 9, 2011**

**Amended: November 2, 2011**

WHEREAS, California Government Code section 7513.85, chaptered on October 11, 2009 to be effective immediately ("Section 7513.85"), requires all California public retirement systems to develop and implement, on or before June 30, 2010, a policy requiring the disclosure of payments to placement agents made in connection with system investments in or through external managers ("Placement Agent Payment Disclosure Policy" or "Policy").

WHEREAS, placement agent as described in this Policy includes all those identified in California Government Code section 7513.8, as amended.

WHEREAS, the Board of Retirement ("Board") of the Marin County Employees' Retirement Association ("MCERA") has determined, upon the recommendation of the MCERA Governance Committee, that adoption of a Placement Agent Payment Disclosure Policy is consistent with the Board's fiduciary responsibilities.

WHEREAS, Section 7513.85 requires the Placement Agent Payment Disclosure Policy to include, but not be limited to, six of the requirements enumerated in the Policy, and new California Government Code section 7513.9 requires additional disclosures that also are enumerated in this Policy.

WHEREAS, the MCERA Governance Committee has recommended, and the Board has determined, that the Placement Agent Payment Disclosure Policy must be agreed to in writing, and a report shall be filed annually, by all of MCERA's current and future external investment managers.

WHEREAS, in compliance with Section 7513.85, any external investment manager or Placement Agent that violates this Policy shall not solicit new investments from MCERA for five years after the violation is committed, unless the Board decides, in open session by majority vote, to waive the five year prohibition upon a showing of good cause.

WHEREAS, the Board reserves the right to impose an additional penalty of a fine on a external investment manager who violates this Policy, and does not establish good cause therefore to the reasonable satisfaction of the Board; provided, however, that said fine may not exceed the fees due from MCERA to the manager from the date of the violation to the date of the fee's imposition.

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NOW, THEREFORE, BE IT RESOLVED, THAT:

Prior to MCERA investing with any external investment manager, and contemporaneous with required annual filings of Statements of Economic Interests (Form 700) with respect to all MCERA existing external investment managers, MCERA's Investment Committee shall be provided with a written representation from the investment manager, in a form acceptable to MCERA's legal counsel, stating that (1) the external investment manager agrees with the disclosure and penalty provisions set forth in this Policy and (2) it has not used a Placement Agent in connection with MCERA's investment, or if the manager has used a Placement Agent, it will disclose the following:

1. The name of the Placement Agent(s) and the relationship between the external investment manager and Placement Agent(s).
2. A resume for each officer, partner, or principal of the Placement Agent detailing the person's education, professional designations, regulatory licenses, and investment and work experience.
3. A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent.
4. A representation that the compensation provided is the sole obligation of the external investment manager and not of MCERA or the limited partnership.
5. A description of the services performed, and to be performed, by the Placement Agent.
6. A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a county other than the United States, and the details of that registration or explanation as to why no registration is required.
7. A statement whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with any state or national government.
8. All campaign contributions made by the Placement Agent to any elected member of the Board, and to any member of the Marin County Board of Supervisors, during the prior 24-month period, which disclosure shall be amended if any campaign contributions are made during the time the Placement Agent is receiving compensation in connection with a system investment.
9. All gifts, as defined in Government Code section 82028, given by the Placement Agent to any member of the Board, or to the Board's investment consultant, during the time the Placement Agent is receiving compensation in connection with a system investment.
10. All current or former MCERA Board members, employees, or consultants or

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a member of the immediate family of any such person who are either employed or receiving compensation from the Placement Agent.

11. The names of any current or former MCERA Board members, employees, or consultants who suggested the retention of the Placement Agent.

Policy Review

The Board shall review this Placement Agent Payment Disclosure Policy at least every three years to assure its efficacy and relevance. This Policy may be amended from time to time by majority vote of the Board.

Policy History

This Policy was first adopted by the Board of Retirement on December 9, 2009, and was then made Appendix D to the MCERA Investment Policy Statement. It was amended on February 9, 2011, and on November 2, 2011.

Retirement Administrator's Certificate

I, Jeff Wickman, the duly appointed Retirement Administrator of the Marin County Employees' Retirement Association, hereby certify the adoption of this Policy, as amended.

Dated: November \_\_\_\_, 2011

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Retirement Administrator