

INVESTMENT OBJECTIVES & POLICY STATEMENT

FOR

**MIAMI BEACH
EMPLOYEES RETIREMENT PLAN**

April 10, 2012

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Preface

INVESTMENT GUIDELINE REQUIREMENTS OF FLORIDA STATUTES

There are seventeen specific requirements of Florida Statute 112.661. Each of these seventeen requirements is listed below and the page number and section in Investment Objectives & Policy Statement that refer to these requirements is given. It is the intent of this Statement to comply with all of the requirements of this Statute.

1. SCOPE: Page 1, point 2.0 Policy Scope.
2. INVESTMENT OBJECTIVES: Page 2, point 3.3 Investment Objectives.
3. PERFORMANCE MEASUREMENT: Pages 5-6, point 4.4 Investment Objectives (Performance Measurement).
4. INVESTMENT AND FIDUCIARY STANDARDS: Pages 2-3, point 3.5 Board Responsibilities (Investment and Fiduciary Standards).
5. AUTHORIZED INVESTMENTS: Pages 9-12, point 5.4 Investment Manager Guidelines (Authorized Investments).
6. MATURITY & LIQUIDITY REQUIREMENTS: Page 3, point 3.6 Maturity & Liquidity Requirements.
7. PORTFOLIO COMPOSITION: Pages 9-12, point 5.4 Investment Manager Guidelines (Authorized Investments) (Portfolio Composition).
8. RISK & DIVERSIFICATION: Page 5, point 4.1 Diversification and point 4.3 Style Orientation; Page 6, point 4.5 Asset Allocation Plan; and Pages 9-12, point 5.4 Investment Manager Guidelines (Authorized Investments) (Portfolio Composition).
9. EXPECTED ANNUAL RATE OF RETURN: Page 2, point 3.4 Expected Annual Rate of Return.
10. THIRD-PARTY CUSTODIAL AGREEMENTS: Page 4, point 3.9 Third-Party Custodial Agreements; Page 16 Responsibilities of Custodian.
11. MASTER REPURCHASE AGREEMENT: Page 9, point 5.4 (2) Cash & Equivalents (Master Repurchase Agreement).
12. BID REQUIREMENT: Page 15, point 7.1 Bid Requirement.
13. INTERNAL CONTROLS: Pages 3-4, point 3.8 Policies to Ensure Ethical & Prudent Action (Internal Controls).
14. CONTINUING EDUCATION: Page 3, point 3.7 Training & Education Policy (Continuing Education).
15. REPORTING: Pages 15-16, points 8.0 & 8.1 Portfolio Reporting Requirements.
16. FILING OF INVESTMENT POLICY: Page 1, point 1.2, Policy Statement Requirements (Filing of Investment Policy).
17. VALUATION OF ILLIQUID INVESTMENTS: Page 9, point 5.4 (1) Diversification, Liquidity & Restrictions (Valuation of Illiquid Investments).

As per the June 1, 2009 Florida Senate Bill 538 Chapter 2009-97, which established provisions 175.071 (8) and 185.06 (7) the following is required: (Please note that the City of Miami Beach Ordinance No. 2009-3664 is supportive of and consistent with this State of Florida Statute)

1. SCRUTINIZED SECURITY POLICY FOR IRAN/SUDAN INVESTMENTS Page 4, point 3.11 Scrutinized Security Policy for Iran/Sudan Investments,

**MIAMI BEACH
EMPLOYEES RETIREMENT PLAN
INVESTMENT OBJECTIVES AND POLICY STATEMENT**

PART I

POLICY PERSPECTIVES

1.0 INTRODUCTION AND POLICY STATEMENT

1.1 Introduction

The Miami Beach Employees Retirement Plan's Investment Objectives and Policy Statement is a document which establishes and outlines the responsibilities of the various parties that are associated with the management of the Retirement Plan. In addition, this document states various control procedures to ensure that the Plan is appropriately managed. Reports from investment managers, the custodian, consultant and others must verify that the Plan is operating within the framework of the Plan's guidelines.

1.2 Policy Statement (Filing of Investment Policy)

Notwithstanding any other provisions to the contrary, the policy of the Board of Trustees ("Board") of the Miami Beach Employees Retirement Plan ("Plan") shall be to invest public funds in a manner that is consistent with the applicable sections of the Miami Beach Ordinance No. 2006-3504 (which takes precedence over Ordinance No. 2000-3247), as well as State and Federal laws. As required by Florida Statute 112.661 (Senate Bill 372), the Retirement Plan will file with the Department of Management Services, the City and the System's actuary its investment policy statement and any revisions. (Please see Appendix B for policy references to the requirements of Florida Statute 112.661.)

2.0 POLICY SCOPE

This policy shall set forth guidance and requirements for the investment activities conducted by the Board. The funds eligible for investment are all those under the direct authority of the Pension Board of the City of Miami Beach in accordance with the applicable sections of the Miami Beach Ordinance No. 2006-3504.

3.0 POLICY OBJECTIVES

The basic objectives of the Board's investment program are the following:

3.1 Plan Management Objectives

1. Safety of funds invested;

2. Liquidity sufficient to meet all cash needs of the Plan;
3. Investment performance that is competitive in the current market environment once the first two objectives have been satisfied.

3.2 Basic Goals

The goals of the Board are to fund the Plan's benefit payments, while assuming a risk posture that is consistent with the Board's risk tolerance, protect against loss of purchasing power by achieving rates of return above inflation, and obtain (or retain) a fully funded pension status.

3.3 Investment Objectives

The Board's investment objectives are as follows:

- 1) At a minimum, achieve a return equivalent to the Plan's actuarial interest rate, while achieving a return 4% above inflation.
- 2) Exceed the return of the Plan's passive, market-based, investment benchmark. Allocations to specific asset classes are based on the Plan's target asset mix, which are based on the Plan's asset allocation study and the constraints established by City Ordinance.
- 3) Achieve a total Fund return ranking above the median of other public sector retirement funds. Risk-adjusted performance is expected to also be above that of the median pension fund.

3.4 Expected Annual Rate of Return

As required by Florida Statute 112.661, the Board shall specify the Plan's total expected annual rate of return for the current year, for each of the next several years and for the long term. The Board's expected returns for each of these time periods is the actuarial interest rate, as specified in the actuary's most current actuarial valuation. The current actuarial interest rate based on the October 1, 2011 valuation is 8.15%.

3.5 Board Responsibilities (Investment & Fiduciary Standards)

The Board holds the fiduciary responsibility for the Plan. While the Board recognizes that the primary determinant of the Plan investment performance is the total Fund's asset allocation, the Board also recognizes that the Fund must operate within the constraints and guidelines of the City Ordinance.

The Board shall set a reasonably diversified overall asset allocation target (including minimum and maximum allocations), which is expected to appropriately fund the Plan's liabilities, meet its basic investment objectives and match its risk tolerance.

The Fund will be invested in a manner consistent with applicable Miami Beach Ordinance No. 2006-3504 and Florida State laws. It is also the goal of the Board to manage the Fund according to standards that are at least as high as those established by the Employee Retirement Income Security Act (ERISA). Therefore, the Board will act in

a prudent manner and expect its investment managers to act as prudent experts. The Board will also ensure that Plan investments are made for the sole benefit of Plan members and beneficiaries.

If deemed appropriate, the Board may delegate fiduciary investment responsibility to qualified investment managers, with the managers serving at the sole pleasure of the Board. Similarly, the Board may hire other experts to assist in the management and oversight of the Plan. When the Board hires external investment managers to manage fully discretionary portfolios for the Plan, the investment manager agrees to act as a fiduciary and invest its entrusted assets for the sole benefit of the Plan's members and beneficiaries.

Also, in fulfilling their fiduciary responsibility, the Board will establish investment goals, objectives, policies, guidelines and benchmarks for the Plan, asset classes and investment managers.

3.6 Maturity & Liquidity Requirements

The basis for such a target asset allocation will be a study of the Retirement Plan's pension liabilities and reasonable, alternative investment portfolios. Detailed liability projections shall be analyzed to determine the factors influencing the Plan's cash flow requirements. Sensitivity analyses will be prepared so that the Board may thoroughly evaluate the ability of alternative investment portfolios to fund the Plan's liabilities (cash flow requirements). This study will also consider levels of fund performance and total Plan funding volatility, such that risk is properly and prudently evaluated, and identify asset mix alternatives expected to match the risk tolerance of the Board. Thus, an exhaustive review of investment risk and asset/liability funding uncertainties will help ensure that an appropriate investment posture is assumed. In addition, portfolio rebalancing activities will occur to provide for short-term Plan cash flow requirements.

3.7 Training and Education Policy (Continuing Education)

It is the policy of the Board to provide periodic training to Board members and staff in retirement administration and investment related issues through courses, conferences and seminars offered by various organizations. The Board may also conduct educational seminars for its members, with seminar topics specifically developed for the Board members.

3.8 Policies to Ensure Ethical and Prudent Action (Internal Controls)

The Retirement staff shall be governed by the "prudent person rule," which shall be applied in the context of the retirement investment portfolio. Ethical and prudent actions will be further controlled by the following:

- 1) The Retirement Administrator shall establish and document a system of internal controls (Procedures Policies), which shall be approved by the Plan's Board. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Retirement Plan. Controls deemed most important include: control of collusion, separation of duties (e.g., separating transactions authority

from accounting authorization), custodial safekeeping and clear delegation of authority. These controls shall be reviewed by the Board's independent certified public accountant.

- 2) The staff shall act reasonably as custodians of the public trust, and shall recognize that the investment portfolio is subject to public review and evaluation. The overall management of the Retirement program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

3.9 Third-Party Custodial Agreements

- 1) It is the policy of the Board to contract with a bank or financial institution for the safekeeping of securities owned by the Retirement Plan.
- 2) It is the policy of the Board that all U. S. dollar denominated securities rendered for payment will be sent "delivery versus payment" (DVP) through the Federal Reserve System or through the Depository Trust Corporation. This payment process ensures that the Plan's funds are not released until the Plan has received, through Federal Reserve wire or by physical delivery, the securities purchased.

3.10 Placement Agent Fee Policy

Additional disclosure requirements and restrictions have been instituted by public pension funds regarding placement agent fees. When a placement agent assists an investment management organization in obtaining new client accounts, any such compensation must be made public by the investment management organization and disclosed to the Retirement Plan. It is the Retirement Plan's policy to not pay any placement agent fee.

3.11 Favored Nations Investment Management Fee

The Board has also established a policy that its contracts with investment managers be at the most favorable investment management fee level for comparable accounts or portfolios. It is the intent of the Board to receive the lowest asset management fee of any fee offered by its investment managers for comparable portfolios.

3.12 Scrutinized Security Policy for Iran/Sudan Investments

Protecting Florida's Investment Act was signed into law on June 8, 2007. This law requires the State Board of Administration to assemble and publish a list of scrutinized companies that conduct prohibited business operations in Sudan and/or Iran. This legislation impacts only foreign companies with business operations in Sudan and Iran involving petroleum, energy, mineral extraction, power production and military support activities.

Subsequently on June 1, 2009 Florida Senate Bill 538, Chapter 2009-97 was signed into law, which impacts Chapter 175 and 185 Florida Statutes and governed Plans. New provisions in Chapter 175.071 (8) and 185.06 (7) require Boards to identify and report holdings in scrutinized companies and to begin divestment of such holdings on January 1,

2010. Complete divestiture should occur by September 10, 2010. In addition, the Miami Beach City Ordinance that supports the previously mentioned Florida Statutes stance on Iran and Sudan is Ordinance No. 2009-3664.

The Board has implemented policies to divest holdings in scrutinized companies that conduct business in Iran or Sudan. This legislation requires specific actions with respect to separately managed accounts. For such portfolios, investment managers are required to review on a quarterly basis their portfolio holdings relative to a list of scrutinized companies on the State Board of Administration website (www.sbafla.com/fsb/) that have been identified as conducting restricted business activities in Iran and/or Sudan. As of October 27, 2009, there were 38 companies on the List of Scrutinized Companies with Activities in the Iran Petroleum Energy Sector and 57 companies on the List of Scrutinized Companies with Activities in Sudan. This will be revised on a periodic basis.

If any of the separately managed portfolio holdings are issued by companies on the most recent and subsequently revised list of scrutinized companies, the investment management organization must divest of such holdings no later than September 10, 2010. Ongoing compliance is required subsequently as well. Quarterly reporting to the Board of the investment managers' transactions in and evaluation of scrutinized companies is required in the Quarterly Report per 8.1.

For mutual funds, commingled funds and any other fund types, the Board has implemented communication policies with its investment managers that requests compliance with the divestment of companies on the scrutinized securities list consistent with the same time period mentioned above. Documentation of the Retirement Plan's efforts with the investment managers of mutual funds, commingled and any other funds is required. Continuing communication efforts will be made with such funds to request the divestment of scrutinized companies.

3.13 Policy Statement Monitoring

Monitoring of compliance with the Plan's Policy Statement will be conducted in the following manner:

- 1) ***Portfolio investment compliance***
 - a) A quarterly worksheet has been developed based on the Plan's Investment Objectives and Policy Statement. (This worksheet is enclosed in Appendix B.) This worksheet requires the investment managers to state if they are in compliance with each applicable policy. These quarterly worksheets will be e-mailed to the Plan's office and investment consultant.
 - b) Additional review and follow-up will be performed by the consultant as required. Quarterly reports on this work will be provided in writing to the Board.
 - c) It should be noted that the above procedures apply to individually managed, separate account portfolios, not to commingled fund participations. Commingled fund managers are governed by the reporting requirement stated in section 4.2.

- 2) ***Annual policy reporting***
 - a) As discussed below, the investment managers will be requested to provide a current copy of their internal ethics policies, a sworn statement pursuant to Section 287.133 of the Florida Statutes (Public Entity Crime), and annually all other internal policies that relate to the Plan's portfolios.

PART II

PLAN PORTFOLIO MANAGEMENT

4.0 INVESTMENT POLICIES

4.1 Diversification

As it is prudent to diversify investment risk, the Board has adopted a policy to invest in several institutionally acceptable asset classes. These are domestic equity (large, mid and small capitalization), international equity (developed and emerging markets), domestic fixed income, alternative investments (real estate, REITs, private equity and hedge funds) and short-term investments (primarily due to the transactional nature of most managers' portfolios). As the Board deems appropriate, additional asset classes may be added to this list.

4.2 Commingled Fund Participations

The Board acknowledges that when it is in the best interest of the Plan to invest in a commingled vehicle (i.e. collective fund, institutional mutual fund or limited partnership), it is not possible to dictate specific investment guidelines and prohibitions. Periodically, the Board will review the differences and determine if the commingled fund remains in the best interest of the Plan.

4.3 Style Orientation

As part of the diversified asset class investment approach of the Plan, the Board will also seek to employ a diverse group of investment portfolio managers within a specific asset class, if the size of the asset class commitment warrants more than one investment manager. The purpose of this diversification is to allow participation in various phases of a market cycle.

4.4 Investment Objectives (Performance Measurement)

All of the previously mentioned asset classes are expected to:

- 1) Generate rates of return in excess of inflation. Equity investments should approach an average of 6 percent net of fees, above inflation over a full market cycle, or three- to five-year period. Fixed income investments should exceed

inflation by an average of approximately 3 percent net of fees, over an interest rate cycle, or three to five years.

- 2) Exceed the return on the asset classes' market index (benchmark), or passive investment alternatives. These benchmarks are stated below.
- 3) Achieve an asset class return ranking above the median over a full market cycle, or three to five years. Risk-adjusted performance is expected to be above the median manager in each respective asset class, over a full market cycle.
- 4) The above three investment objectives apply to the Plan. However, these same objectives also apply to the Plan's individual investment managers.

4.5 Asset Allocation Plan

Based on the Plan's asset allocation study and acceptance of the proposed target asset mix (most recently updated in November, 2007), the following is the Plan's maximum asset allocation:

| | Allocation <u>Maximum</u> |
|-------------------------|------------------------------|
| Total Domestic Equity | 60.0 % |
| Large Cap | 60.0 |
| Mid Cap | 10.0 |
| Small Cap | 5.0 |
| International Equity | 25.0 |
| Alternative Investments | 6.0 |
| Domestic Fixed Income | 100.0 |
| Short-Term Investments | 100.0 |

The market benchmarks for the above asset classes are as follows:

| | |
|-------------------------|--|
| Large Cap Equity | S&P 500 Index |
| Mid Cap Equity | S&P 400 Index |
| Small Cap Equity | S&P 600 Index |
| International Equity: | |
| Developed Markets | MSCI Europe, Australia, & Far East Index (EAFE) |
| Emerging Markets | MSCI Emerging Markets Index (gross of dividends) |
| Alternative Investments | (To be determined, based on applicable asset class.) |
| Domestic Fixed Income | Barclays U.S. Aggregate Bond Index |
| Short-Term Fixed Income | 90-Day Treasury Bills |

4.6 Miami Beach Ordinance

Provisions of Ordinance No. 1901 apply to the Miami Beach General Employees Retirement System and Article 8. specifically addresses investments. This Article was amended by Ordinance No. 2000-3247. Provisions in Ordinance No. 88-2603 established the Unclassified Employees & Elected Officials Retirement System. Subsequently, Ordinance No. 2006-3504 was adopted, which provided the groundwork for the combination of the General Employees System with the Unclassified Employees & Elected Officials Retirement System.

To provide some historical context on the governing law, Ordinance No. 2000-3247, a copy of the amended Article is included in Appendix A and is deemed to be a part of this Statement.

PART III

INVESTMENT GUIDELINES

5.0 INVESTMENT MANAGERS' RESPONSIBILITIES, POLICIES AND GUIDELINES

All investment managers hired by the Plan will be registered investment advisors with the Securities and Exchange Commissions, or will be trust companies that are regulated by State and Federal Banking authorities. Such investment managers will maintain insurance coverages as determined by the Board including errors & omissions, surety bond, fiduciary liability, ERISA bond, etc. In addition, the Plan's investment managers agree to notify the Board Chairman and the Retirement Administrator in writing if they are unable to continue acting in the capacity of a fiduciary or investment advisor.

5.1 Investment Managers' Responsibilities

As stated above, managers are expected to act as prudent experts in the management of a fully-discretionary account(s) for the Plan and agree to be fiduciaries to the Plan. In fulfilling their roles, managers will continually educate the Board about capital market developments that pertain to their area of investment expertise.

Investment managers are expected to meet applicable investment objectives over the designated time horizon. If such objectives become unreasonable for any reason, it is the manager's responsibility to communicate his/her reservations about the objectives in writing to the Board. Otherwise, failure to meet these objectives may result in dismissal.

Satisfying the quarterly portfolio reporting requirements of the Plan is also an important part of the manager's responsibilities. These requirements are stated in a subsequent section of this document. Significant portfolio developments, as well as major changes in the firm's ownership, organizational structure and personnel, should be immediately communicated in writing via e-mail to the Board and their investment consultant.

It is the responsibility of each investment manager to provide a current version of their internal code of ethics. Additionally, once a year the manager will provide updated copies of investment and other policies developed by the firm that are relevant to the Plan and its portfolio, and a sworn statement on public entity crime.

It is the responsibility of each investment manager to achieve the Board's goals and investment objectives, as outlined above.

5.2 Investment Manager Policies

The investment policies governing each investment manager hired by the Plan are as follows:

- 1) The investment manager is required to accept the responsibilities stated above.
- 2) Under any and all capital market environments, the investment manager agrees to maintain the investment approach that it was hired to implement. Changes to the manager's investment decision making process are to be immediately reported in writing to the Board.
- 3) An investment portfolio constructed for the Plan is expected to generally conform to other portfolios managed by the investment organization, exclusive of specific investment guidelines. When the Plan's guidelines require the investment manager to manage a portfolio significantly different than their other portfolios, the manager shall communicate in writing the potential impact of the Plan's guidelines on the portfolio.
- 4) The members of the investment management firm's research and portfolio teams are expected to comply with the CFA Institute Standards of Practice and Code of Ethics. Any industry or regulatory disciplinary action taken against members of the firm's investment staff must be immediately reported in writing to the Board.
- 5) Portfolios managed for the Plan are fully discretionary, but must meet the provisions of the Plan's investment objectives and policies.
- 6) Unless otherwise specified, portfolios are to be fully invested in acceptable investment securities. Under no circumstances shall an investment manager attempt to "market time" investments in its portfolio.
- 7) The Board has delegated proxy voting responsibilities to investment managers, and the investment managers agree to vote all proxy ballots according to the best economic interest of the Plan's members and in a manner consistent with the Board's proxy policies. The investment manager further agrees to provide the Board with quarterly proxy voting reports.
- 8) The investment manager agrees to actively support the Plan's commission recapture program.

5.3 Derivatives Investing Policies

1) Investment Restrictions and Derivatives Policy

For the purpose of these guidelines, convertible debt, traditional zero coupon bonds, mortgage pass-through securities and asset-backed securities are not viewed as derivatives. These investment securities are required to meet all of the guidelines established for the Plan's traditional investments.

The following guidelines have been established:

Allowable derivative investments

- a. Stable and well-structured mortgage CMO's (collateralized mortgage obligations)
- b. Financial futures (if exchange traded). Acceptable financial future contracts include futures on Treasury Bills, Agency certificates, Treasury Bonds and S&P 500, S&P 400 and S&P 600 Stock Index futures.

Any other derivative than those specified as allowable investments above cannot be held in the Plan's portfolios at any time.

5.4 Investment Manager Guidelines (Authorized Investments) (Portfolio Composition)

1) Diversification, Liquidity & Restrictions Valuation of Illiquid Investments)

Portfolio holdings are expected to be well-diversified, so as to avoid excessive volatility and to be liquid. Only investments in liquid securities¹ are allowed. Further, all equity and fixed income securities must be rated investment grade or, if the equity securities are not rated, the investment manager deems the securities to be investment grade. In addition, short selling, use of leverage or margin and investments in commodities is prohibited.

If any investment should become illiquid, it is subject to Florida Statute 215.47 (6). This Statute limits the allocation to illiquid investments and addresses requirements of such investments.

2) Cash & Equivalents (Master Repurchase Agreement)

Transactional cash, portfolio assets that are temporarily not invested in authorized, longer term securities as stated below, may either be directly invested in allowable high-grade short-term fixed income investments or may be "swept" into the Fund's custodial short-term investment (money market) commingled fund. Allowable high-grade, short-term fixed income investments are as follows: Certificates of deposit, commercial paper, U. S. Treasury bills and repurchase agreements. All repurchase agreements must comply with provisions of the

¹A liquid security is one that has a readily available price, based either on a recent trade or a well-recognized pricing mechanism. Such a security could be sold within one week at most, without incurring significant losses due to price depreciation, in a normal or typical capital market environment.

currently prevailing Master Repurchase Agreement, as established by The Bond Market Trade Association. These investments will have short maturities, typically less than 90 days, but none more than 1 year. If an investment is made in the custodian's money market fund, it is the responsibility of the investment manager to make sure that the money market fund has investment guidelines which comply with the Plan's investment objectives and policy statement.

3) Domestic Equity Portfolios - Large Capitalization

The types of assets that may be held in large capitalization, domestic equity accounts are common stock, preferred stock, convertible securities, with the vast majority of holdings in common stock. In distinction to mid and small capitalization portfolios, which are described below, large capitalization domestic equity portfolios will primarily invest in stocks with market capitalizations (current market price per share times the number of common shares outstanding) consistent with its underlying performance benchmark (S&P 500 & Russell 1000 Value Index). Large capitalization, domestic equity managers can invest in mid- and large-capitalization stocks. However, the vast majority of equity holdings will be in large capitalization issues.

The Board is well aware of the significant change in the market capitalization levels of the reconstituted Russell Indexes as of June 30, 2009. As a result of the significantly altered market capitalization ranges for the Russell 1000, Russell Mid Cap and Russell 2000, the Board wishes to convey to its investment managers that only economically-based factors should be used to purchase or sell securities, rather than blindly complying with benchmark market capitalization ranges. As a result, all domestic equity investment managers across the market capitalization spectrum are temporarily allowed to hold securities with market capitalizations outside of their underlying performance benchmark. Domestic equity investment managers will have three years from the date of this Investment Policy Statement to bring the market capitalization of their portfolio holdings into compliance with the respective performance benchmarks. This policy exception will be reviewed annually during the next three years and will be suspended no later than December 8, 2012.

Firms that manage equity portfolios will continually monitor the risk associated with their equity investments. They will be expected to report on the active management decisions they have assumed relative to their respective benchmarks.

As a result of this risk/reward analysis, active equity managers will statistically attribute actual performance variance from their benchmarks in each regular quarterly report. Included in this report will be statistics attributing performance to sector weighting decisions versus the benchmark and security selection decisions within each sector relative to the benchmark.

Foreign ordinary shares are not authorized investments for large capitalization, domestic equity portfolio managers. Minimal exposure to American Depository Receipts (ADR's) of foreign companies, less than 5%, is authorized in large cap, domestic equity portfolios.

No single security can represent more than 5% of the market value of a portfolio at the time of purchase. No single industry (based on the Global Industry Classification System codes) can represent more than 15% of the market value of the account.

4) Domestic Equity Portfolios - Mid Capitalization

The restrictions, guidelines, and reporting requirements as stated above for large capitalization domestic equity portfolios, also apply to mid capitalization domestic equity portfolios, except for the applicable benchmark related requirements. Mid capitalization, domestic equity portfolios will invest in stocks with market capitalizations consistent with their underlying benchmark (the S&P 400).

Investments in equity securities that are not rated by nationally recognized rating agencies are acceptable for mid capitalization equity managers. Typically, stock rating agencies require 10-year dividend and earnings track records to produce equity security ratings. Given that many smaller capitalization equity securities typically do not have 10-year dividend and earnings track records, it is expected that a majority of mid capitalization equity holdings will not have stock ratings.

5) Domestic Equity Portfolios – Small Capitalization

The restrictions, guidelines, and reporting requirements as stated above for large and mid capitalization domestic equity portfolios, also apply to small capitalization domestic equity portfolios, except for the applicable benchmark related requirements. Small capitalization, domestic equity portfolios will invest in stocks with market capitalizations consistent with their underlying benchmark (the S&P 600).

Investments in equity securities that are not rated by nationally recognized rating agencies are acceptable for small capitalization equity managers. It is expected that a majority of small capitalization equity holdings will not have stock ratings.

6) International Equity Portfolios - Developed Markets

Assets in international equity portfolios will be primarily composed of ADR's (including ADR's that are 144A securities), with some foreign ordinary shares. Short term, high-grade fixed income securities may be purchased as previously stated, or the Fund's custodial sweep account may be employed. Primarily larger capitalization securities may be held, although investments in mid-capitalization securities is also allowed. Managers will continually monitor the country, sector and security selection risks associated with their international portfolios. All of these risks will be included in the manager's quarterly reports and performance attribution based on these factors will also be included.

Developed country international equity portfolios will be measured against a reasonable version of the MSCI EAFE Index (Europe, Australia, and the Far

East). If the manager feels another index is more appropriate, this case should be made in writing to the Board.

No single security can represent more than 5% of the market value of a portfolio at the time of purchase. No single market sector (based on the Europe, Australia and Far East Stock Index sectors) can represent more than 30% of the market value of the account.

Compliance with the scrutinized security lists in 3.12 is required.

7) International Equity Portfolios - Emerging Markets

Assets in emerging equity market portfolios will be primarily composed of ADR's (including ADR's that are 144A securities) and GDRs (global depositary receipts), with some US dollar-denominated foreign equity shares. A limited allocation may be made to exchange traded funds. Short term, high-grade fixed income securities may be purchased or the Fund's custodial sweep account may be employed. Large, mid and small capitalization securities may be held. Managers will continually monitor the country, sector and security selection risks associated with their emerging equity market portfolios. All of these risks will be included in the manager's quarterly reports and performance attribution based on these factors will also be included.

Emerging market equity portfolios will be measured against the MSCI Emerging Markets Index (gross of dividends). If the manager feels another index is more appropriate, this case should be made in writing to the Board.

No single security can represent more than 5% of the market value of a portfolio at the time of purchase. Single market sector allocations will be the lower of 30% of the market value of the account (based on the MSCI Emerging Market Index sectors) or 15% plus the sector's weight in the MSCI Emerging Markets Index.

Compliance with the scrutinized security lists in 3.12 is required.

8) Domestic Fixed Income Portfolios

Acceptable security types for domestic fixed income portfolios are certificates of deposit, commercial paper, other high grade short-term securities, U. S. Government and Agency securities, corporate bonds, mortgage- and asset-backed securities² and Yankee bond securities. Cash and equivalent holdings may be comprised of high grade certificates of deposit, commercial paper, U. S. Treasury bills and repurchase agreements.

Firm's that manage fixed income portfolios will continually monitor the risk associated with their fixed income investments. They will report on their active

² Please note that mortgage- and asset-backed securities are technically derivative securities but for the purposes of this Policy Statement these securities are not classified as a derivative. Such investments must be at least BBB/Baa rated.

investment management decisions relative to their respective benchmarks. As a result of this risk/reward analysis, active fixed income managers will statistically attribute actual performance variance from their benchmarks in each regular quarterly report. Statistics which relate performance variance to effective duration decisions, yield curve positioning, sector allocation, security selection and other portfolio management decisions will be included in each quarterly report. Also, to the extent possible, various interest rate scenarios will be depicted in horizon analysis testing, with time horizons spanning the next six months to one year, or longer.

Derivative securities may not be held in domestic fixed income portfolios, except as provided in Section 5.3 above.

No single security can represent more than 5% of the market value of a portfolio at the time of purchase. This single security restriction does not apply to U. S. Government and Agency bond holdings.

For domestic fixed income portfolios, the universe of fixed income securities is comprised of investment grade securities. Such securities must have investment grade ratings by two of the three nationally recognized rating Agencies--Standard & Poor's, Moody's and Fitch. When investment grade security holdings are anticipated to be downgraded to below investment grade ratings, the fixed income firm will communicate these expectations to the Retirement Plan Administrator and the Plan's investment consultant. If two of the ratings of a fixed income holding fall below the lowest investment grade rating (below BBB or Baa), the bond will be sold in an orderly fashion unless the investment manager: First, notifies the Retirement Plan Administrator and the Plan's investment consultant within two days that the security has been downgraded below investment grade; and second, the manager states that he/she would like to retain the security for possible upgrade or price improvement.

If US government securities are downgraded by any of the rating Agencies, domestic fixed income portfolio managers are required to explain the potential impact of such a downgrade. This explanation should be provided to the Plan Administrator and investment consultant within two days after the downgrade.

a. Rule 144A Securities

Bond portfolios may invest up to 10% of their assets in Rule 144A bond issues, with potentially up to an index weighting in foreign domiciled issuers.

PART IV

CONTROLS

6.0 PROXY VOTING

6.1 The Board's primary objective is to have its proxy ballots voted according to the best economic interest of the Plan's members. If the Board decides to delegate to their investment managers the responsibility for voting proxy ballots, the investment managers agree to classify and report on the Plan's proxies according to the following generic categories:

- 1) Routine business or financial matters
- 2) Non-routine business or financial matters
- 3) Anti-takeover issues
- 4) Corporate governance shareholder proposals
- 5) Social responsibility shareholder proposals

6.2 Under normal circumstances, it is expected that the investment managers will employ the Board's following proxy voting guidelines on issues of routine business or financial matters. The managers will vote for:

- 1) The proposed slate of directors, assuming directors attend requisite meetings
- 2) Appointment of auditors
- 3) Increases in authorized common stock, not to exceed 100% of existing authorized shares. (Reasons for stock issuance include regular capital increases, merger and acquisition activity, stock option provisions and other factors.)
- 4) Changes in board structure

6.3 The Board also provides the following general guidelines with respect to non-routine matters, anti-takeover issues, corporate governance proposals and socially responsible proposals:

- 1) For issues that involve non-routine business or financial matters, the managers would be expected to vote against the nonfinancial effects of a merger proposal, but for director liability and indemnification, stock option plans and stock splits.
- 2) In the area of anti-takeover issues, it is expected that the investment managers shall vote against blank check preferred stock proposals, classified boards, limiting shareholders' right to call special meetings, limiting shareholders' rights to act by written consent, super-majority voting requirements, reincorporation proposals, issuance of stock with unequal voting rights and elimination of preemptive rights.
- 3) For corporate governance shareholder proposals, the managers will be expected to vote for requiring a majority of independent directors, submitting a company's

shareholder rights plan to a shareholder vote, implementing confidential voting, anti-greenmail proposals, opting out of State anti-takeover laws, equal access to proxy materials, submitting golden parachutes to a shareholder vote, adopting cumulative voting and shareholder proposals involving anti-takeover proposals. The managers will be expected to vote against, limiting the terms of directorship and stock ownership requirements.

- 4) In the area of socially responsible shareholder proposals, the managers will vote these proxies in the best economic interest of the Plan's members.

6.4 Under certain circumstances, the Board recognizes that voting in accordance with these issue-specific proxy guidelines will not be consistent with their primary proxy voting guideline of voting all proxy ballots according to the best economic interest of the Plan's members. In such cases, when reporting to the Board in their regular quarterly report, the investment manager shall explain why they did not vote according to the Board's issue-specific proxy guidelines.

On a quarterly basis, the investment managers shall provide to the Board the following information on their proxy votes:

| Company Name | Date of Vote | Proxy Issue | Vote & Explanation |
|--------------|--------------|-------------|--------------------|
| | | | |

7.0 TRANSACTIONS, BROKERAGE, AND COMMISSION RECAPTURE PROGRAM

The Board understands its fiduciary responsibility with respect to transactions and hereby instructs its investment managers to seek best execution when conducting all trades. Managers are instructed to seek to minimize commission and market impact costs³ when trading securities. Also, investment managers are expected to measure the costs associated with their investment trades.

Investment managers shall provide monthly reports to the Board summarizing commission activity by broker, indicating the average commission cost and execution costs. While there are many ways of measuring execution costs, same day, volume weighted average prices will be used to calculate these costs. Volume weighted average price equity execution costs are defined as the purchase price less the volume weighted

³ Market impact for equity trades is based on the transaction price relative to the volume weighted average price (VWAP) on the trade date. With the expansion of greater trading volume near the close of the market, transaction prices are also evaluated relative to same day closing prices.

average price on the trade date, and the volume weighted average price on the trade date less the sale price.

When trading securities, best execution is the paramount consideration of the Board. This objective is expected to provide for and protect the best economic interest of the Plan. As part of the trading process, managers shall determine expected trading costs associated with the Board's commission recapture brokerage firm. If trading through this brokerage firm is in the best economic interest of the Plan, the managers are expected to consider this firm as well as others in obtaining best execution.

All securities transactions shall be executed through reputable member-firm broker/dealers.

7.1 Bid Requirement

For fixed income securities, the Board requires that all its investment managers must obtain competitive bids when seeking to trade all types of fixed income securities or instruments.

8.0 PORTFOLIO REPORTING REQUIREMENTS

A regular quarterly written review of investment manager performance versus the respective investment manager's guidelines and benchmarks will be provided. Performance both before and after investment management fees will be evaluated. Investment results over periods extending back five years or since inception, will be stated, if available, as well as the appropriate universe medians and style group comparisons by the Plan's investment consultant.

In addition to the portfolio and quarterly proxy reporting requirements stated in the previous section, reports to the Board shall include the following information and cover these topics:

8.1 Quarterly Reports:

- 1) Portfolio investment objectives, investment strategy and decision making process:
The investment objectives of the portfolio will be clearly stated. Next, a narrative description of the portfolio's investment strategy will be provided, with a discussion of the factors that proved to be favorable and those that were unfavorable. In addition, a concise statement of the firm's investment decision making process will be provided and any changes or modifications that were made to the process.
- 2) Portfolio performance before and after investment management fees:
The manager shall report the quarterly total portfolio rate of return before and after investment management fees have been deducted, as well as cumulative and annual performance on both bases since account inception. Also included in these tables will be the manager's performance benchmarks.
- 3) Portfolio asset mix and asset growth:

The portfolio's allocation to the major asset classes will be specified for the beginning and end of the quarter. Market values will be shown for the total account over the same period.

- 4) Portfolio allocations according to characteristics and other classifications:
Specific portfolio characteristics will be developed and contrasted to those of the portfolio's performance benchmark. In addition other sector and industry comparisons will be provided.
- 5) Portfolio reconciliation to the custodial bank:
As of quarter-end (as well as monthly), the manager will reconcile its portfolio market value to that provided by the Plan's custodial bank. The Plan's custodial trustee accounts for investments on a trade date basis. Explanation of discrepancies shall be provided.
- 6) Portfolio positions and transactions:
Individual issues in the portfolio as of the most recent quarter-end shall be provided, as well as a list of portfolio purchases and sales. Securities that are sold will be classified according to the manager's general reasons for sale.
- 7) Portfolio Investment Guidelines
As stated in the previous section, entitled Investment Manager Guidelines, portfolio characteristic reporting is described, as well as attribution analysis reporting requirements. These characteristics and attribution analysis will be included in the managers' quarterly reports.
- 8) Statement of Sudan/Iran holdings
When reporting the analysis and actions taken on scrutinized holdings, state the date of the list of scrutinized companies used in your firm's analysis.

9.0 POLICY EXCEPTIONS

While this Policy prescribes various maximums, minimums and other relatively arbitrary numerical limits, it is intended primarily to be a management tool. When the Board determines that an exception to one of the numerical limits here within is in the best interest of the Plan, such an exception is permitted as long as it is consistent with applicable City, State and Federal laws.

Whenever an exception or violation of this Policy is discovered, that fact shall be reported to the Retirement Administrator and the Board Chairman within one business day of its discovery and major exceptions will be reported immediately.

10.0 POLICY REVIEW

This investment policy shall be reviewed periodically to ensure the Plan's compliance with the overall objectives of safety, liquidity and investment performance, and current laws and financial trends. Proposed amendments to the Policy shall be prepared by the staff and Plan's consultant and shall be presented to the Board for consideration and approval.

11.0 RESPONSIBILITIES OF CUSTODIAN

The Board recognizes that accurate and timely completion of custodial functions is necessary for the effective monitoring of the investment management activity. The custodian's responsibilities for the Plan's investable assets are to:

- 11.1** Provide complete custody and depository services for the Plan's designated accounts.
- 11.2** Provide a Short Term Investment Fund (STIF) for investments of any cash, to ensure maximum investment of the Plan's assets.
- 11.3** Provide in a timely and effective manner, settlement of securities transactions and provide monthly reports of the investment actions implemented by the Plan's investment managers.
- 11.4** Collect all income and principal realizable and properly report the collections on the custodial periodic statements.
- 11.5** Provide monthly and fiscal year-end accounting statements for the Plan's portfolios, including all transactions. These statements should be based on accurate security values both for cost and market. These reports should be provided within an acceptable time frame.
- 11.6** Report to the Plan situations where accurate security pricing, valuations and accrued income is either not possible to report or is subject to considerable uncertainty.
- 11.7** Provide assistance to the Plan to complete such activities as the annual audit, transaction verification or unique issues as required by the Board.
- 11.8** Provide electronic access to accounting and performance reporting systems.
- 11.9** Assist the Board in keeping track of securities litigation cases of past and current investments made by the Pension Fund's investment managers. Periodic securities litigation reports will be supplied to the Board to review.

Revised & Approved by the Board of Trustees: 5/14/02 Board Meeting

Revised & Approved by the Board of Trustees: 2/5/08 Board Meeting

Revised & Approved by the Board of Trustees: 1/12/10 Board Meeting

Revised & Approved by the Board of Trustees: 4/10/12 Board Meeting

Appendix A

MIAMI BEACH ORDINANCE 2000-3247

Whereas, certain provisions of Ordinance No. 1901 which created the General Employees Pension System (“System”) are in need of amendment to conform to changes to the Related Special Acts of the City of Miami Beach that were approved through referendum on November 2, 1999; and

Whereas, the amendments set forth herein were recommended by the Board of Trustees of the Retirement System for General Employees of the City of Miami Beach.

Now, therefore, be it ordained by the Mayor and The City Commission of the City of Miami Beach, Florida:

Section 1. Amendment of Section 8.01

That Section 8.01 of Article 8, entitled “Definitions” of the City of Miami Beach Ordinance No. 1901 is hereby amended as follows:

8.01 Investments

The assets of the General Employees Retirement System, in excess of the amount required to meet current operations or pension and retirement payments, shall be invested in accordance with the following paragraph:

The trustees shall, in acquiring, investing, reinvesting, exchanging, retaining, selling and managing property for the benefit of the General Employees Retirement System, exercise the judgment and care under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. Within the limitations of the foregoing standard, a trustee is authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment specifically including, but not by way of limitation, bonds, debentures and other corporate obligations, and stocks, preferred or common, which persons of prudence, discretion and intelligence acquire or retain for their own account and, within the limitations of the foregoing standard, a trustee may retain property acquired, without limitation as to time and without regard to its suitability for original purchase.

Section 2. Repealer.

All Ordinances or parts of Ordinances in conflict herewith shall be and the same are hereby repealed.

Section 3. Severability.

If any section, subsection, clause or phrase of this Ordinance is held to be invalid or unconstitutional by any court of competent jurisdiction, then said holding shall in no way affect the validity of the remaining portions of this Ordinance.

Section 4. Effective Date/

This Ordinance shall take effect on the 17th day of June, 2000. Passed and adopted this 7th day of June, 2000.

SECTIONS of ORDINANCE No. 1901 NOT AMENDED

8.02 All investments shall be clearly marked to indicate that they are a part of the assets of the System, and to the extent possible they shall be so registered.

8.03 Transactions involving the sale of bonds and simultaneous purchase of other bonds for substantially the same consideration may be treated as exchanges rather than two separate transactions. No adjustments shall be made in investment valuations for ordinary current market price fluctuations, but reserves may be provided for anticipated losses upon redemption as determined by the Board.

8.04 Except as otherwise herein provided, no trustee or employee of the Board shall have any direct interest in the income, gains or profits of any investments made by the Board, nor shall any such person receive any pay or emolument for services in connection with any investment. Proof that any such person violated any of these restrictions shall make such person guilty of a misdemeanor or felony, as the case may be, and such person shall be punishable therefor as provided by law.

Appendix B

PORTFOLIO MONITORING FORM

Compliance Certification Statement

Miami Beach Employees Retirement Plan

In accordance with the Investment Objectives and Policy Statement adopted April 10, 2012 the following compliance worksheet will be completed by each of the Plan's investment managers. On a calendar quarter-end basis, please complete all of the sections of this document. These statements must be e-mailed to the Retirement Plan's office and investment consultant no later than 10 days after the end of each reporting period.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its entrusted assets for the sole benefit of the Plan? (3.5) Yes/No: ___ If no, please explain.
2. Has the firm paid any placement agent fees? (3.8) Yes/No: ___ If yes, please explain. Is the firm's contract provided at the lowest asset management fee for comparable accounts, based on the most favored nations clause? (3.10) Yes/No: ___ If no, please explain in detail.
3. If the firm has a separately managed account, has it reviewed the most recent list of Iran and Sudan scrutinized companies on the Florida State Board of Administration website? Yes/No: ___ If no, why has this analysis not been undertaken? If yes, how many companies on these lists are represented by holdings in the portfolio managed for the Retirement Plan? What actions are planned to bring the portfolio into compliance with the list of scrutinized companies?
4. If the firm manages a portion of a fund for the Retirement Plan, has it reviewed the most recent list of Iran and Sudan scrutinized companies on the Florida State Board of Administration website? Yes/No: ___ If no, why has this analysis not been undertaken? If yes, what communication effort has been undertaken with the scrutinized companies in the fund to bring the holdings into compliance with the list of scrutinized companies?
5. Are the Plan's market benchmarks in the respective asset class areas acceptable to the firm? (4.5) Yes/No: ___ If no, please explain.
6. Has the firm's insurance coverages been sustained? (5.0) Yes/No: ___ If no, please explain.
7. Does the firm consider any of the Plan's investment objectives unreasonable? (5.1) Yes/No: ___ If yes, please explain.

8. Have there been any significant portfolio developments, changes in firm ownership, organizational structure and personnel? (5.1) Yes/No: ___ If yes, please explain.
9. Have there been any changes in the firm's investment approach? (5.2 2) Yes/No: ___ If yes, please explain.
10. Do the Plan's guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (5.2 3) Yes/No: ___ If yes, please explain.
11. Have there have been any industry or regulatory disciplinary actions taken against the firm? (5.2 4) Yes/No: ___ If yes, please explain.
12. Have proxy ballots been voted in accordance with the best economic interest of the Plan's and in a manner consistent with the Board's proxy policies? (5.2 7) Yes/No: ___ If no, please explain.
13. For domestic equity managers, has the firm supported the Plan's commission recapture program? (5.2 8) Yes/No: ___ If no, please explain.
14. Are all securities investment grade rated or deemed investment grade? Yes/No : ___

Investment Manager Guidelines (Authorized Investments) (Portfolio Composition)

1. Are portfolio holdings well-diversified, and made in liquid securities? (5.4 1) Yes/No: ___ If no, please explain.
2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? (5.4 1) Yes/No: ___ If yes, please explain.

Cash & Equivalents (Master Repurchase Agreement)

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (5.4 2) Yes/No: ___ If no, please explain.

Domestic Equity Portfolios (Large, Mid & Small Capitalization)

1. Please state the percentage of the portfolio held in each of the following types of securities: common stock; preferred stock; convertible securities; and, cash & equivalents. (5.4 3)

2. What is the firm's market value allocation to large, mid and small capitalization stocks? (5.4 3) Please specify percentages.
3. To what extent are portfolio holdings outside the respective benchmark for the portfolio? (5.4.3) Has this percentage declined from last quarter? Yes/No: ____
4. Specify if any of the portfolio's holdings are foreign ordinary shares. (5.4 3) What percentage of the portfolio's holdings are American Depository Receipts (ADR's)?
5. List all securities that have a current market capitalization above 5%. Were any of these portfolio holdings above 5% at the time of purchase? (5.4 4) Yes/No: ____
6. Based on the GICS industry codes, what is the largest percentage of the portfolio represented by a single industry? (5.4.4) Please list any industries above 15%.

International Equity Portfolios - Developed Markets

1. Specify the percentage of the portfolio held in each of the following types of securities: foreign ordinary shares; ADR's; foreign ordinary shares; cash & equivalents (domestic). (5.4 6)
2. Specify the large, mid and small capitalization exposure of the portfolios. (5.4 6)
3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (5.4 6) Yes/No: ____ If no, please explain.
4. Is the firm in compliance with the Plan's derivatives investment policy? (5.3) Yes/No: ____ If no, please explain.

International Equity Portfolios – Emerging Markets

1. Specify the percentage of the portfolio held in each of the following types of securities: ADR's; GDR's; US dollar-denominated foreign equity shares; ETF's; cash & equivalents (domestic). (5.4 7)
2. Specify the large, mid and small capitalization exposure of the portfolios. (5.4 7)
3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (5.4 7) Yes/No: ____ If no, please explain.
4. At the time of purchase, did any security represent more than 5% of the market value of the portfolio? (5.4 7) Yes/No: ____ If yes, please explain.
5. Are sector allocations the lower of 30%, or the benchmark weight plus 15%? (5.4 7) Yes/No: ____ If no, please explain.
6. Is the firm in compliance with the Plan's derivatives investment policy? (5.3) Yes/No: ____ If no, please explain.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities: certificates of deposit; commercial paper; other high grade short-term securities; U. S.

Government and Agency securities; corporate bonds; mortgage- and asset-backed securities and Yankee bond securities. (5.4 8)

2. Is the firm monitoring its active investment management decisions relative to the Plan's investment benchmark? (5.4 8) Yes/No: ____ If no, please explain.
3. Does the firm conduct horizon analysis testing? (5.4 8) Yes/No: ____ If no, please explain.
4. Are derivative investments in compliance with the Plan's investment policies? (5.3) Yes/No: ____ If no, please explain.
5. What percentage of the portfolio is invested in securities below investment grade? (5.4 8) If any below investment grade securities are held, please provide a summary of the discussions the firm has held about the below investment grade securities with the Retirement Administrator and the Plan's investment consultant. .
6. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/No: ____ (5.4 8)
7. Please specify. What percentage of the portfolio is held in domestically domiciled Rule 144A securities? (5.4 8) If greater than 10%, please explain.

Signed by:

Dated:

Firm: