SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

INVESTMENT POLICY STATEMENT

Approved June 27, 2018

TABLE OF CONTENTS

MISSION STATEMENT

The Board of Retirement ("Board") of the Santa Barbara County Employees' Retirement System ("SBCERS") has a fiduciary responsibility to the members and beneficiaries of SBCERS. In recognition of this responsibility, the Board has adopted the following Mission Statement:

Santa Barbara County Employees' Retirement System is committed to:

- Fulfilling its fiduciary responsibility by providing the highest quality of service to all members and plan sponsors, and
- Protecting promised benefits through prudent investing while ensuring reasonable expenses of administration.

INVESTMENT POLICY STATEMENT

I. STATEMENT OF PURPOSE

This Investment Policy Statement establishes the policies of the Board for administering the assets held in trust (the "Fund") for the benefit of the members and beneficiaries of SBCERS. The Board retains the sole authority to revise this Investment Policy Statement.

The Board recognizes that a prudent, well-articulated investment policy is crucial to the long-term success of SBCERS. As such, the Board has developed this Investment Policy Statement with the following goals in mind:

1. To clearly and explicitly establish the objectives and parameters that govern the investment of SBCERS' assets.

2. To establish a target asset allocation designed to satisfy SBCERS' long-term objective of funding the benefits promised to members and beneficiaries.

3. To establish the guidelines by which the Board will delegate a portion of its authority over investment of the assets of SBCERS to consultants, and investment managers, and will monitor their performance to assure compliance with this Investment Policy Statement.

The Board intends that the assets be at all times invested in a manner consistent with all applicable state and federal laws and regulations. The Board will retain legal counsel as appropriate to review the investment process and third-party contracts and provide advice with respect to applicable laws and regulations.

II. GOVERNING AUTHORITY

SBCERS was established on January 1, 1944. It is administered by the Board to provide service retirement, disability, death, and survivorship benefits for employees and beneficiaries of the County and contracting agencies under the California State Government Code §31450 et seq., (County Employees' Retirement Law of 1937 or CERL). Members include all permanent full and part-time employees of the County of Santa Barbara, the Santa Barbara County Superior Court, and the following nine districts:

- Carpinteria, Goleta, Oak Hill and Santa Maria Cemetery Districts
- Carpinteria-Summerland Fire Protection District
- Mosquito & Vector Management District of Santa Barbara County
- Santa Barbara County Air Pollution Control District
- Santa Barbara County Association of Governments
- Summerland Sanitary District

The Board is responsible for establishing policies governing the administration of the retirement plan and managing the investment of SBCERS' assets under authority granted by the California State Constitution. The Board consists of nine members and two alternates. Four members are appointed by the County Board of Supervisors; four members and two alternates are elected by the membership (two by general members, one member and one alternate by safety members, and one member and one alternate by retirees); and the County Treasurer is an ex-officio member. The Board retains a Chief Executive Officer responsible for the organization who oversees investment staff.

III. INVESTMENT OBJECTIVE

SBCERS was established to provide promised benefits to its members and their beneficiaries in a timely, effective and efficient manner. The Board has sole and plenary authority to administer SBCERS and invest its assets in order to successfully achieve the purpose of SBCERS.

The Board seeks to achieve a return on investment relative to acceptable levels of liquidity and investment risk given capital market conditions. While the Board recognizes the importance of preserving capital, it also acknowledges the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns. Consequently, the Board believes that prudent risk-taking is appropriate.

The specific investment return objective is to maximize the risk adjusted return of the portfolio within the parameters established by the Board.

IV. INVESTMENT PHILOSOPHY

The Board's investment strategy is designed to ensure the prudent and diversified investment of assets in such a manner as to provide real growth of assets over time while protecting the value of such assets from undue risk of loss, at the minimum possible cost, and without sacrificing return. The Board will administer the assets on a going-concern basis. The assets will be invested with a long-term time horizon (twenty years or more).

Risk

The investment beliefs of the Board are based on capital market theories that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. These beliefs hold that:

1. Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk-taking is justifiable for long-term investors.

2. Risk can be decreased through broad diversification of asset classes, investment strategies and investment managers as well as through diversification of individual securities.

3. Over time, the relative performance of different asset classes is reasonably consistent. For example, over the long-term, equity investments have provided and should continue to provide superior returns over other security types while certain fixed-income securities can protect capital and provide liquidity in periods of depressed economic activity.

4. The primary determinant of long-term investment performance is the strategic, or long-term, allocation of assets among various asset classes.

5. Short-term (tactical) shifts between asset classes are hard to time and execute and are therefore unlikely to be rewarded with any degree of reliability. These shifts should be utilized rarely, and only in extraordinary circumstances.

6. The potential to increase risk-adjusted returns through active management exists in capital markets and is inversely correlated to the efficiency of the market.

In determining its risk posture, the Board has properly considered SBCERS' purpose and characteristics, current and projected financial condition, liquidity needs, sources of contribution, income, and general business concerns in the context of its fiduciary obligations and statutory requirements.

Diversification

The Board recognizes that an important element of risk control is diversification. Therefore, investments will be allocated across multiple asset classes, chosen in part based upon the expected correlation or non-correlation of their returns. Within each asset type, the Board will seek to distribute investments across many individual holdings, thus expecting to further reduce volatility. In addition, guidelines applicable to Specialty Consultants, defined below, and Investment Managers, defined below, specify concentration limitations and set other diversification requirements.

Frequency of Investment Policy Statement and Asset Allocation Review

The Investment Policy Statement will be reviewed no less frequently than every three years to ensure that it remains appropriate. However, the Board recognizes the need for a stable long-term policy for SBCERS, and major changes to this Investment Policy Statement should be made only when there are significant developments in market conditions, circumstances, objectives, or constraints.

The asset allocation of SBCERS will be considered on an on-going basis, and formally reviewed at least every three years. The Board shall conduct an asset liability modeling study in conjunction with an actuarial experience study every three years. In general, the Board intends that SBCERS will adhere to its long-term target allocations, and that major changes to these targets will be made only in response to significant developments in the circumstances, objectives, or constraints of SBCERS or in capital market conditions.

V. STANDARDS OF CARE

Standard of Prudence

All participants in the investment process will act responsibly. The standard of prudence to be applied to the board members, investment staff and consultants is as follows:

1. In satisfying this standard, board members, investment staff and consultants shall discharge their duties with respect to the system with the care, skill, prudence and diligence under circumstances then prevailing that a prudent person acting in like capacity and familiar with those matters would use in an enterprise of a like character and with like aims.

2. Investment and management decisions respecting individual assets will be evaluated not in isolation but in the context of the investment portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Fund.

Conflicts of Interest Prohibited

Members of the Board, investment staff, investment managers, and consultants involved in the investment of SBCERS' assets will act in accordance with other Board policies and refrain from any activity that could conflict with the proper execution and management of SBCERS' investment program, or that could impair their ability to make impartial recommendations and decisions.

VI. ROLES AND RESPONSIBILITIES

Board

The Board is responsible for overseeing the investment of the funds supporting SBCERS. Its primary duty is to set the asset allocation by determining the asset classes to be used and allocating a certain percentage of funds to each class. The Board diversifies investments in order to achieve an optimal rate of return for a reasonable amount of risk. It is also responsible for setting an investment policy detailing the process for hiring, evaluating, and terminating investment managers. Specific duties include:

1. Review and confirm or amend the asset allocation and investment policy of the Retirement System investment portfolio not less than every three years taking into account Retirement System liabilities.

2. Review and confirm or amend the Board's investment policies, following completion of any significant change in the asset allocation, as appropriate.

3. Approve investment strategies for achieving the investment objectives of SBCERS, which will include at a minimum:

    a. investment structure;
    b. guidelines concerning each asset class in which SBCERS is invested; and,
    c. allocation range for each asset class.

4. Review the performance of investment managers and investments not less often than quarterly, including the balance of each asset class relative to the targets and ranges established in this policy.

5. Review the performance of the Board's investment consultants.

The Board may, at its discretion, retain or discharge the services of any investment professional, advisor or service provider at any time and in its sole discretion, to further its prudent administration of the SBCERS' investments, policies, and procedures. The Board may also re-direct the assigned functions of any professional or provider firm it engages, at any time.

Chief Executive Officer ("CEO") and Investment Staff

The CEO oversees investment staff and has the responsibility and authority to assist the Board in establishing investment and administrative policies as well as monitoring the implementation of the policies and programs established by the Board. The CEO will work with the Board to monitor the performance of consultants participating in the investment process. Specific duties include working with the Board's investment consultants to:

1. Recommend to the Board and/or designated committees periodic updates to investment policies, including the Investment Policy Statement.

2. Recommend to the Board and/or designated committees strategies for achieving investment objectives.

3. Implement Board approved investment policies, strategies and establish contractual terms with investment managers and consultants.

4. Ensure execution of portfolio rebalancing and portfolio transitions pursuant to Board approved policies.

5. Together with the Board's investment consultants, ensure that necessary research is performed into investment trends, issues and opportunities that may have implications for the investment program of SBCERS.

6. Ensure all necessary investment manager and consultant due diligence is performed as directed by the Board.

7. Implement the process of identifying and selecting investment managers.

General Investment Consultant

The General Investment Consultant is hired by, and reports to, the Board. The General Investment Consultant provides advice to the Board and investment staff and prepares materials for the following items:

1. All investment-related matters, including the development of investment goals and objectives.

2. Investment policies and strategies.

3. Asset allocation decisions.

4. Investment implementation issues.

5. Investment manager selection, monitoring and termination.

6. Investment manager guidelines and restrictions.

7. Reporting and analysis of investment performance.

8. Educational opportunities designed to improve each board member's knowledge of investment practices and issues.

Specialty Consultants

In addition to the General Investment Consultant, the Board retains specialty consultants to provide advice on private market investments and other matters ("Specialty Consultants"). Certain specialty consultants retained to manage private equity, private real estate and private real return allocation have discretionary authority to enter into investments on behalf of SBCERS pursuant to the terms of their contractual agreement. Specific policies and guidelines related to private equity, private real estate and private real return investments are contained in the appendices to this policy. All specialty consultants are hired by, and report to, the Board. Specialty consultants with discretionary authority perform services for the Board and provide advice on:

1. Asset class specific policies.

2. Commitment pacing.

3. The process for selection, monitoring and termination of private market investments.

4. Private market investment guidelines and restrictions.

5. The due diligence process and ongoing monitoring of private market investments, including policy compliance.

6. Reporting and analysis of investment performance.

7. Establishing compliance with California law governing investments under their purview.

Investment Managers

Except in cases where the Board has explicitly delegated discretionary authority to a specialty consultant, investment managers are selected by, and serve at the pleasure of the Board. The Board will retain investment managers that specialize in the use of particular asset classes. Investment staff and the General Investment Consultant will provide investment managers with explicit written directions detailing their particular mandates. Investment managers have full discretion to select, buy, and sell securities or investments within the parameters established by the investment management agreement between the Board and the investment manager. Investment managers will construct and manage investment portfolios that are consistent with the investment philosophy and disciplines for which they were hired.

Custodian

The Custodian serves as the master custodian of the SBCERS assets and is responsible for maintaining the official book of record, calculating investment performance, and serving as an additional layer of risk control in the safekeeping of the SBCERS assets.

VII. ASSET ALLOCATION

Asset Class Policy Targets and Ranges

The Board recognizes that the allocation of funds to various asset classes will be the major determinant of the SBCERS return and risk experience over time. Therefore, the Board will allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the SBCERS investment objectives.

Based on the investment objectives and constraints of SBCERS, and on the expected behavior of asset classes, the Board will specify a long-term target allocation for each asset class. These targets are expressed as a percentage of SBCERS' overall market value, limited by a band of permissible variation.

The long-term target allocations are intended as strategic goals, not short-term imperatives. Thus, it is permissible for the overall SBCERS' asset allocation to deviate from the long-term target. Examples of when this deviation will occur is during investment manager transitions, asset class restructurings, short-term market volatility and other temporary changes.

SBCERS' target allocations for all permissible asset classes are shown below.

Asset Class	Target Allocation (%)	Target Range (%)
U.S. Equity	19	15-23
Developed Market non-U.S. Equity	11	8-14
Emerging Market Equity	7	4-10
Core Fixed Income	17	14-20
Non-Core Fixed Income	11	8-14
Real Return	15	8-22
Real Estate	10	5-15
Private Equity	10	5-15
Cash	0	0-2

Rebalancing

Investment staff and the General Investment Consultant will monitor the portfolio's asset allocation relative to target allocations and ranges on a monthly basis. The General Investment Consultant will report monthly to the Board on the asset allocation balances relative to target. Investment portfolio cash inflows and outflows will be allocated in a manner consistent with the strategic target allocation. If the actual allocation for an asset class falls outside the range determined by the Board, the CEO has delegated authority to direct transactions intended to return asset levels to the target range, and to determine the time frame for accomplishing the rebalance. The Board's asset allocation targets for each asset class set forth in this document will be used to facilitate the rebalancing procedure. When an asset class has fallen outside the minimum or maximum of its allocation range, rebalancing will be achieved by moving the asset class in question halfway back to target. The General Investment Consultant, will identify asset classes most overweight/underweight relative to target (with possible exceptions being made for less liquid asset classes such as Real Return, Real Estate and Private Equity) and recommend by investment manager, the appropriate amounts to reallocate. If there are residual assets leftover when rebalancing halfway back to target, the residual assets will be distributed proportionally across the asset classes that are below their lower rebalance target. A report will be provided to the Board on rebalancing actions in the month immediately following completion of any rebalancing.

VIII. SELECTION, MONITORING, AND TERMINATION OF INVESTMENT MANAGERS

Process for Selecting Investment Managers

The search for a public investment manager shall generally be initiated by an action of the Board and based upon the recommendation of the General Investment Consultant. This recommendation will identify the investment allocation affected, the proposed amount of the new investment mandate, the reason for the search, the proposed timeline of the search, and the method used (e.g. public request for proposal, invitation to bid, sole source). If a public request for proposal is not recommended, the General Investment Consultant should provide a memo explaining the reason for the recommended method of search. Unless the Board decides otherwise, all searches shall be conducted by the General Investment Consultant. Throughout the search process the General Investment Consultant shall consult with and keep the CEO and investment staff fully informed of progress and determinations made during the search.

The first step shall involve the establishment of appropriate minimum criteria such as minimum asset base, performance history, special firm qualifications, years of experience, etc. that reflect an appropriate level of institutional investment service. Based upon these criteria, the General Investment Consultant will design the appropriate solicitation documents to be delivered to the institutional marketplace.

The General Investment Consultant will implement a scoring system to evaluate the qualifications of firms meeting the minimum search criteria. Their objective shall be to narrow the field to several firms for in-depth review and finalist selection to be performed. As part of selecting finalists, the General Investment Consultant will provide prospective investment managers with SBCERS' contract templates and side letter provisions (if any) along with requesting information on and entering into preliminary negotiation on fees. Once general agreement has been achieved on contractual provisions, the finalists shall then be scheduled for Board presentations.

Following the Board's selection, investment staff, with the assistance of the General Investment Consultant and legal counsel, shall negotiate final terms and conditions with the chosen investment manager(s) and complete the review and negotiation of all appropriate contracts and agreements.

Monitoring Investment Managers

As part of the ongoing monitoring process, investment managers will report monthly, quarterly, and trailing annualized performance for each mandate under management to SBCERS and its General Investment Consultant. In addition, investment managers will provide performance attribution statistics (typically on a quarterly basis) that explain the causes of under- or out-performance relative to the mandates assigned benchmark. Investment managers will also report any changes in investment-related personnel, organization or investment approach/strategy that may potentially impact the investment results of the portfolio in question, as soon as practical after said change is known.

The General Investment Consultant will evaluate investment performance on an ongoing basis and prepare reports for consideration by the Board. The evaluation shall take into account that when active fees are paid to investment managers, there is an expectation of outperformance relative to the investment manager's benchmark over a long-term time horizon.

As part of its ongoing fiduciary responsibilities, as well as in assessing the potential of an investment manager to produce future added value, the Board, CEO, investment staff and its General Investment Consultant will also regularly review the guidelines put into place for each investment manager. This review will include consideration of applicable benchmark(s), and the purpose of the mandate as part of the broader portfolio. Investment manager guidelines will be issued separately to each investment manager, these guidelines will be developed by the General Investment Consultant and included in negotiated agreements with investment managers.

Watch Status of an Investment Manager/Portfolio

Investment manager retention decisions are very important to the continued success of SBCERS' investment strategy. The General Investment Consultant shall maintain a watch list and present the list to the Board quarterly. The watch list policy applies to investment managers in the following asset classes: U.S. Equity, Developed Market Non-U.S. Equity, Emerging Market Equity, Core Fixed Income, Non-Core Fixed Income, and Real Return. The watch list does not apply to investment managers and general partners retained by specialty consultants or under agreements that are closed-end or illiquid in nature. The watch list does not necessarily lead to any further action but rather is intended to place an investment manager under increased scrutiny based on failure to meet quantitative or qualitative standards.

The General Investment Consultant will make recommendations regarding watch list additions and removals to the Board on a quarterly basis. When an investment manager is placed on the watch list, all quantitative and qualitative criteria concerning the recommendation will be reviewed and a response to the conditions which resulted in watch list placement will be requested from the investment manager. The investment manager will be closely monitored during the watch list period and remain under close scrutiny until the General Investment Consultant recommends and the Board determines that the quantitative and qualitative criteria for removal from the watch list have been satisfied. The General Investment Consultant shall provide the Board the facts and criteria relied upon in making the recommendation for removal from the watch list.

1. Quantitative Factors Resulting in Watch List Additions

   A number of factors may contribute to an investment manager's over- or under-performance at any given time such as market dynamics, investment skill, and externalities beyond the manager's control. The following represent guidelines to be used in making a recommendation to the Board with regard to placing investment managers on the watch list.

   a. Test 1: The investment manager's rolling, five-year return (net of fees) falls below the rolling five-year benchmark return for three consecutive quarters.

b. Test 2: The investment manager's rolling, five-year return (net of fees) for three consecutive quarters ranks in the bottom third of the General Investment Consultant's peer group universe.

2. Qualitative Factors Resulting in Watch List Additions

   A significant and potentially adverse event related, but not limited, to any of the following qualitative issues or events, will be considered a reason to add the investment manager to the watch list. Examples include, but are not limited to, these events:

   a. Violation of investment guidelines.

   b. Deviation from stated investment style or shifts in the firm's philosophy or process.

   c. Turnover of one or more key personnel.

   d. Change in firm ownership or structure.

   e. Significant loss of clients and/or assets under management.

   f. Significant and persistent lack of responsiveness to client requests.

   g. The initiation of significant litigation or regulatory action.

   h. Failure to disclose significant information, including potential conflicts of interest.

   i. Chronic violations of this Investment Policy Statement.

   j. Any other issue or situation of which the General Investment Consultant and/or Board become aware that is deemed material.

Process for Investment Manager Termination

The Board reserves the right to terminate an investment manager for any reason, including, but not limited to the factors and criteria described above for the watch list. However, the Board may elect to not place an investment manager on the watch list prior to termination.

IX. INVESTMENT MANAGER TRANSITIONS

In the event of the need to perform transition management activities (including, but not limited to, the transfer of the management of assets from one investment management firm to another, exposure management during funding or de-funding of an investment management mandate, or the like), The General Investment Consultant, will recommend the most efficient and prudent manner to perform such transition, including determining whether to use a transition manager to manage the asset transition (a "Transition Manager"), the legacy investment manager(s) or the target investment manager(s) to effect the contemplated asset restructuring.

1. If it is determined that it is prudent to use a transition manager, the transition manager will be selected, with advice from the General Investment Consultant from the Board's pre-approved list of transition managers after review of materials submitted by the transition managers in response to a solicitation. As part of this review, a transition manager's expertise in trading the asset class(es) to be transitioned will be considered. The CEO and investment staff will execute a written agreement for services with the transition manager.

2. Following the completion of each transition event, a report will be provided to the Board on the results of the selection process and comparison of the estimated and actual costs of the transition.

3. On a periodic and as-needed basis, but not less than every five years, a request for qualifications will be an issued and a report will be provided to the Board that reviews the Board's preapproved list of Transition Managers, evaluates their qualifications and performance, and any other relevant information. This report will make recommendations for any removal or addition to the pre-approved transition managers.

X. SECURITIES LENDING

SBCERS participates in securities lending transactions through its Custodian in order to increase income. Securities are lent to brokers and dealers (borrower) and in return, SBCERS receives collateral. Collateral can be in the form of cash (both United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt of foreign countries, irrevocable bank letters of credit or such other forms as may be agreed upon. SBCERS pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Earnings generated above and beyond the interest paid to the borrower represent income to SBCERS from the transaction.

Transactions are collateralized at no less than 100% of the security's market value. Collateral is marked to market daily. The Custodian invests the collateral received in short-term investment funds (maintained by the Custodian), money market mutual funds, and other similar investments as the Custodian may select.

The average term of SBCERS loans is overnight or "on demand". The Custodian will ensure that, in any agreement with a borrower, it retains its absolute right to terminate the agreement without cause, upon short notice and without penalty. SBCERS cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, the Custodian indemnifies SBCERS to the extent of replacing the securities loaned.

XI. PERFORMANCE MONITORING

Performance measurement will be based on total rate of return and will be monitored over a sufficient time period to reflect the investment expertise of the investment manager(s) over one full market cycle, or five years, whichever is less. In general, the Board will utilize relative, rather than absolute, benchmarks in evaluating performance. The total performance of the Retirement System will be evaluated relative to the investment objectives and constraints identified in this investment policy statement. Specifically, total fund performance will be evaluated relative to a “custom benchmark” that weights the returns of available market indices on the basis of SBCERS’ target investment structure, to assess the implementation of SBCERS’ investment strategy. An additional benchmark, which "dynamically" weights the actual percentages allocated to the current investment managers, will also be utilized. Investment performance shall be reviewed at least quarterly.

XII. RISK MANAGEMENT

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SBCERS would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in SBCERS name, and held by a counter party. SBCERS securities are not exposed to custodial risk as they are held by the Custodian bank in SBCERS’ name.

Short-term investments are held in pooled funds operated by the Custodian bank. Such pooled funds are not collateralized. Investment staff in coordination with the General Investment Consultant monitors and reports on allocation to short-term investments held in uninsured, uncollateralized investment pools by Investment Managers. Amounts held in short-term investment pools, as directed by Investment Managers, are counted toward the asset allocation target group which holds the underlying Investment Manager allocation and not towards SBCERS’ cash allocation.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Retirement System international equity managers are permitted to invest in authorized countries using a variety of different investment vehicles. Forward currency contract and currency futures (maturity ranging from at least 20 days and not to exceed one year for either instrument) are permitted for defensive currency hedging. SBCERS employs specialty consultants to gauge the efficiency of foreign currency transactions by investment managers.

The General Investment Consultant monitors foreign currency risk and reports to the Board on exposure to foreign currency on a quarterly basis. Investment manager guidelines address how currency risk should be handled for each respective mandate. The General Investment

Consultant provides advice to investment staff on structuring Investment Manager mandates to reduce the risk that SBCERS' concentrations in any foreign currency exceed established risk tolerances.

Investment Concentration Risk

Investment concentration risk is the risk that SBCERS will aggregate investments in any one security, issuer, asset class or market segment in an amount that materially affects the diversification of the overall portfolio in a manner not intended. The General Investment Consultant and investment staff establish investment policies for each Investment Manager in order to control the concentration risk of the Fund. The General Investment Consultant provides reporting and assists investment staff in monitoring concentration risk when separate investment manager mandates overlap. Examples include the extent to which Investment Managers who have broad mandates (e.g. developed market equities vs. emerging market equities).

XIII. VOTING OF PROXIES

The Board recognizes that the voting of proxies is an important responsibility in assuring the overall performance of the Fund over a long time horizon. The Board has delegated the responsibility of voting all proxies to an outside proxy voting service provider. The Board expects that the proxy voting service will execute all proxies in a timely fashion, and in accordance with proxy voting guidelines established by the Board.

XIV. QUIET PERIOD

The Board acknowledges that all procurements, including Investment Manager related searches, are subject to a "Quiet Period." The Board's policies on quiet periods are described in the Board's "Service Provider Selection Policy" which is available on the Retirement System website at www.sbcers.org.

APPENDIX A: PRIVATE REAL RETURN PORTFOLIO INVESTMENT GUIDELINES

I. STATEMENT OF PURPOSE

The Private Real Return Investment Policy ("Policy") is designed to ensure that investment managers, consultants, and SBCERS Board and investment staff engage in prudence and reasonableness while investing the SBCERS Private Real Return Program ("the Program"). Additionally, adherence to this Policy should provide assurance that there is sufficient flexibility in managing the investment risks and returns associated with the Program.

The Program began in 2012. The Board has engaged a specialist ("Consultant") to oversee and manage the Program. The Consultant shall serve in a discretionary capacity and is responsible for discretionary management and control of the assets allocated to the Program. The Consultant is also the investment manager of the Program.

II. STRATEGIC OBJECTIVE

The strategic objective of the Program is to help SBCERS meet the long-term investment goals of its overall portfolio through participation in investment opportunities that will aim to provide investment returns commensurate with the Program's targets. Private Real Return Investments ("investments") shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Preserve investment capital.
2. Provide diversification to SBCERS' overall investment program.
3. Provide a hedge against inflation.
4. Provide cash yield as a component of the overall investment return.

III. PERFORMANCE OBJECTIVE AND BENCHMARK

The objective of the Program is to provide long-term risk-adjusted returns that meet or exceed the Program Benchmark. The Consultant will pursue investments expected to provide returns that adequately compensate for assumed investment risks. The Program Benchmark is the Consumer Price Index All Urban Consumers (CPI-U) plus four percent (4%).

Benchmarks are used as a point of reference for investors to assess the risk and performance of their own portfolio. Given the nature of the asset class and the difficulty benchmarking shorter-term results, there may be significant deviations between Program results and benchmark performance over shorter time periods.

IV. RESPONSIBILITIES AND DELEGATIONS

The Board shall, from time to time, approve and amend both this Policy and the Annual Strategic Plan as presented by the Consultant. In addition, the Board shall oversee the Program's performance and will act in a fiduciary capacity in the exercise of its duties.

Investment staff shall:

1. Oversee day-to-day investment operations not performed by the Consultant and ensure the availability of cash to fund investment commitments.

2. Review Consultant's work to ensure completeness, thoroughness and accuracy.

3. Assist Consultant in making recommendations to the Board on written guidelines and policies.

4. Assist Consultant in working with SBCERS Counsel on legal matters.

5. Coordinate on-going reporting to the Board.

Consultant shall:

1. Assist in the development and implementation of the Program.

2. Be responsible for discretionary management and control of the assets allocated to the Program subject to the limitations of this policy, and direct all decisions to buy, hold, and sell Program assets.

3. Conduct due diligence on investment opportunities under consideration and negotiate agreements on behalf of SBCERS in conformance with contract and side letter templates and provisions established by SBCERS legal counsel.

4. Acknowledge and act as a fiduciary to SBCERS.

5. Monitor individual partnerships, including compliance with established investment mandates and negotiated agreements as part of its process for monitoring the total portfolio.

6. Prepare the Annual Strategic Plan that includes an annual pacing plan and present such to the Board, as soon as practicable after the first of the year.

7. Promptly alert the Board and Staff of any changes or events that would reasonably impact the Program.

8. Notify investment staff at least six (6) business days prior to the required funding of capital calls.

9. Provide quarterly performance reports to the Board and investment staff that assess investment performance of partnerships and address following areas:

    a. Objectives established by the partnership.

    b. Risk undertaken.

    c. The long-term performance objective, with appropriate interpretation if applied to the short-term.

    d. All commitments, secondary sales and invested fund closures.

10. Consultant shall provide annual reports that comply with California laws applicable to reporting fees for investments in this asset class.

V. INVESTMENT APPROACHES AND PARAMETERS

The Program is expected to be diversified by industry sector, strategy, vintage year, geographic guidelines and investment managers. All target exposures and restrictions listed in Section V are long-term goals and may not be achieved during the development stage, defined as the first five years, of portfolio construction. It is acknowledged that in the early stages of development, actual exposures may not conform to long-term targets.

1. General Approach and Target Exposures

The majority of investments will be made through primary partnership vehicles. However, investments may also include fund-of-funds, which are known as efficient vehicles to gain diversified exposure to private market investments. Additionally, investments may include direct secondary investments or secondary focused fund-of-funds. The Consultant shall report to the Board prior to making a secondary or fund-of-funds investment, if it has any relationship, including management of assets or receipt of compensation from such vehicles' underlying investments.

Industry Sector
Exposure to one industry shall not exceed 25-30% of the overall market value of the portfolio. The Consultant will monitor industry sector exposure and will adjust future capital commitments if a given industry sector concentration exceeds acceptable limits.

Strategy
The strategy for the overall Program is designed to provide long-term returns that meet or exceed the Program Benchmark. The risks associated with investments are generally classified by a range of criteria, including the source of revenue, exposure to demand (utilization, GDP growth, market pricing), region (Developed or Emerging Markets), and lifecycle (operational, or in a stage of development or construction).

Strategy	Target Range
Natural Resources	55-65%
Infrastructure	35-45%

Natural Resources investments are characterized by investing in the following sectors: oil and gas, mining and minerals, timber, agriculture, and renewables. Infrastructure investments are characterized by investing in assets that provide stable returns and yield primarily in transportation, utilities and energy, communications, and social infrastructure

Vintage Year

Vintage year diversification for the Program will be maintained through commitment pacing. A commitment pacing plan and model will be prepared and presented to the Board annually as part of the Strategic Plan.

Geographic Guidelines

The Program will pursue a diversified global investment strategy to reduce the risk of concentrating investments in one market. Primary focus will be on North America and other Developed Markets, including, but not limited to, the United Kingdom and Western Europe. Investments in less developed markets will only be pursued on an opportunistic and selective basis.

Investment Managers and Structures

The Consultant will survey the market for suitable investment opportunities on an ongoing basis, and seek utilize investment managers who have the resources and experience to achieve the objectives described herein. At any time, the number of qualified investment managers may be limited due to the specialized nature of strategies.

Investments will generally be in managed funds, described below:

a. Closed-End Funds: A professionally managed pool of capital that primarily invests in unlisted securities. Closed-End Funds are structured as partnerships or private companies and typically have terms that are ten years or longer.

b. Open-End Funds: Similar to Closed-End Funds, yet without a fixed term. Certain Open-End Funds offer limited options for the redemption of investments.

c. Secondary Interests: The direct purchase of secondary interests in a partnership from the General Partner, Limited Partner, or third party.

d. Co-Investments: consists of investments made into a single asset or company alongside a General Partner, project sponsor, or other party. A co-investment may be made directly or indirectly through a private commingled investment vehicle. Co-investments are to be considered solely on an opportunistic basis and will follow the investment guidelines described in this Policy. Prior to the completion of a co-investment, the Consultant will discuss the co-investment with the Board. The Board will have an opportunity to weigh the pros and cons of co-investing and provide the Consultant with their level of comfort given additional risks associated with this type of investing.

2. **Investment Limitations**

The below ranges are broadly defined to accommodate changing market conditions and a growing portfolio. The long-term target ranges for a mature portfolio are expected to fall within the mid-ranges of each category.

In order to limit concentration risks, investments shall not exceed the following limits:

a. To any one investment manager, a maximum of twenty-five percent (25%) of the Target Allocation.

b. To any one co-investment, a maximum of ten percent (10%) of the annual Target Allocation.

c. In aggregate, co-investments will represent between zero and twenty percent (0-20%) of the Target Allocation

d. The Portfolio will primarily consist of equity investments with additional exposure to debt. Regardless of the structure, targeted investments will be in line with the strategic objectives and benchmarks outlined in the Policy.

3. **Specific Risk Parameters**

The Program will be exposed to specific risks that are associated with private real return investments including, but not limited to:

a. Operating and Business Risk: Certain investments entail above average operating and business risk.

b. Liquidity Risk: investments lack liquidity and typically have time horizons of 5 to 10 years. Additionally, secondary markets for such investments can be limited based on market conditions and often there is an associated risk that an investment will be sold for less than par if liquidated on the secondary market.

c. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include specific termination provisions in partnership transactions or the removal of general partners.

d. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

e. Leverage Risk: Investments may employ a substantial degree of leverage, which, depending on the specific terms, could result in significant risk.

f. Political and Public Risk: Infrastructure investments in particular often require political and public support.

g. Environmental Risk: Investments could be impacted by environmental conditions and climate change.

h. Sovereign Risk: Investments outside the US, and particularly in developing markets, could face risks associated with political, economic, and currency instability.

i. Labor Risk: Investments in public-sector infrastructure and other sub-asset classes could be impacted by labor relations as a result of concerns related to public-sector outsourcing.

4. Quality Control Processes

The Consultant shall employ a quality control process to track investment performance, manage risk, and monitor Program efficiency.

a. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.

b. Risk Control: The Program's standards are maintained through the following processes:

    i. Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.

    ii. Assessing manager and investment vehicle business and operational risks.

    iii. Documenting due diligence activities.

c. Process Monitoring: monitor transaction processing to insure timely decision-making and an effective investment process.

APPENDIX B: PRIVATE EQUITY PORTFOLIO INVESTMENT GUIDELINES

I. STATEMENT OF PURPOSE

The Private Equity Investment Policy ("Policy") is designed to ensure that investment managers, consultants, and SBCERS Board and investment staff engage in prudence and reasonableness while investing the SBCERS Private Equity Program ("Program"). Additionally, adherence to this Policy should provide assurance that there is sufficient flexibility in managing the investment risks and returns associated with the Program.

The Program began in 2005. The Board has engaged a specialist ("Consultant") to oversee and manage the Program. The Consultant shall serve in a discretionary capacity and is responsible for discretionary management and control of the assets allocated to the Program. The Consultant is also the investment manager of the Program.

II. STRATEGIC OBJECTIVE

The strategic objective of the Program is to develop a diversified Private Equity portfolio capable of achieving investment returns commensurate with Program targets. Private Equity investments ("investments") are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional public market investments. They are expected to have a low correlation to other investment classes and therefore contribute to enhancing the risk-return of a total portfolio.

Investments shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law, and shall be selected to accomplish the following:

1. Enhance the System's performance result by generating strong long-term results.

2. Hedge against long-term liabilities.

3. Provide diversification to SBCERS' overall investment program.

III. PERFORMANCE OBJECTIVE AND BENCHMARK

The objective of the Program is to provide long-term risk-adjusted returns that meet or exceed the Program Benchmark. The Consultant will pursue investments expected to provide returns that adequately compensate for assumed investment risks. The Program Benchmark is the Russell 3000 Index plus three percent (3%). Use of the Russell 3000 Index reflects the opportunity cost of investing in alternative investments versus publicly traded common stocks. Benchmarks are used as a point of reference for investors to assess the risk and performance of their own portfolio. Given the nature of the asset class and the difficulty benchmarking shorter-term results, there may be significant deviations between Program results and benchmark performance over shorter time periods.

IV. RESPONSIBILITIES AND DELEGATIONS

The Board shall, from time to time, approve and amend both this Policy and the Annual Strategic Plan as presented by the Consultant. In addition, the Board shall oversee the Program's performance and will act in a fiduciary capacity in the exercise of its duties.

Investment staff shall:

1. Oversee day-to-day investment operations not performed by the Consultant and ensure the availability of cash to fund investment commitments.
2. Review Consultant's work to ensure completeness, thoroughness and accuracy.
3. Assist Consultant in making recommendations to the Board on written guidelines and policies.
4. Assist Consultant in working with SBCERS Counsel on legal matters.
5. Coordinate on-going reporting to the Board.

Consultant shall:

1. Assist in the development and implementation of the Program.
2. Be responsible for discretionary management and control of the assets allocated to the Program subject to the limitations of this policy, and direct all decisions to buy, hold, and sell Program assets.
3. Conduct due diligence on investment opportunities under consideration and negotiate agreements on behalf of SBCERS in conformance with contract and side letter templates and provisions established by SBCERS legal counsel.
4. Acknowledge and act as a fiduciary to SBCERS.
5. Monitor individual partnerships, including compliance with established investment mandates and negotiated agreements as part of its process for monitoring the total portfolio.
6. Prepare the Annual Strategic Plan that includes an annual pacing plan and present such to the Board, as soon as practicable after the first of the year.
7. Promptly alert the Board and Staff of any changes or events that would reasonably impact the Program.

8. Notify investment staff at least six (6) business days prior to the required funding of capital calls.

9. Provide quarterly performance reports to the Board and investment staff that assess investment performance of partnerships and address following areas:

    a. Objectives established by the partnership.

    b. Risk undertaken.

    c. The long-term performance objective, with appropriate interpretation if applied to the short-term.

    d. All commitments, secondary sales and invested fund closures.

10. Consultant shall provide annual reports that comply with California laws applicable to reporting fees for investments in this asset class.

V. INVESTMENT APPROACHES AND PARAMETERS

1. General Approach and Target Exposures

The Program is expected to be diversified by industry sector, strategy, vintage year, geographic location, and investment managers. The majority of investments will be made through primary partnership vehicles. However, the Program can opportunistically invest in fund of funds, which are known as efficient vehicles to gain diversified exposure to private market investments. Additionally, the Program may pursue direct secondary investments or secondary focused fund of funds. The Consultant shall report to the Board prior to making a secondary investment or Fund-of-Funds if it has any relationship, including management of assets or receipt of compensation from such vehicles' underlying investments.

Industry Sector
The Consultant will monitor industry sector exposure and will adjust future capital commitments if a given industry sector concentration becomes high. Exposure to one industry is considered high at 25-30% of the Program.

Strategy
The strategy for the overall Program is designed to provide long-term returns that meet or exceed the Program Benchmark. The table below outlines Consultant's investment strategy target ranges and exposures for the Program.

Strategy	Target Range
Corporate Finance/Buyout	**60-70%**
Large/Mega Buyout	20-30%
Small/Mid Buyout	30-40%
Special Situations	**10-20%**
Distressed Debt	10-15%
Secondary	0-10%
Secondary-Direct	0-10%
Special Situations	0-10%
Venture/Growth Equity	**5-15%**

Corporate Finance Buyout: Characterized by partnerships seeking to make controlling and non-controlling investments in established companies which have the potential to achieve greater value through improved performance. Consultant believes the buyout sector will provide attractive risk adjusted returns over the public markets in the long run.

Special Situations: Characterized by partnerships using a unique strategy, primarily distressed and turnaround, industry focused and multi-stage partnerships. Consultant believes investing in this strategy will enhance returns, while mitigating risks in the long-term.

Venture/Growth Equity: Characterized by partnerships that provide start-up or growth capital to companies in the early stages of development. Growth investments tend to carry less risk than typical venture capital investments as companies within this strategy are generally more mature and more developed in nature.

Consultant believes that this strategy has the potential to provide higher returns for the Portfolio. Consultant believes performance dispersion between top and bottom quartiles is the greatest in this investment strategy and as a result, fund access and selection are crucial to attractive returns. Consultant shall invest in venture capital opportunistically, with a focus on top tier managers and may consider fund-of-funds vehicles, while mindful of additional layers of fees.

Vintage Year

Vintage year diversification for the Program will be maintained through commitment pacing. A commitment pacing plan and model will be prepared and presented to the Board annually as part of the Strategic Plan

Geographic Guidelines

The Program is expected to primarily remain focused primarily in North America, with additional exposure to Europe, Asia, and Rest of World. The table below outlines the geographic target exposures for the Program.

Location	Target Range
North America	60-70%
Europe	30-40%
Asia	0-10%
Rest of World	0-10%

Manager Relationships
Consultant will continue to exercise due diligence in reviewing the entire private equity market for investment opportunities. In order to ensure proper portfolio diversification, the Program will limit exposure to one manager to a maximum of 25% of the total Program.

2. **Specific Risk Parameters**

The Program will be exposed to specific risks that are associated with investing in private equity, including, but not limited to:

a. Operating and Business Risk: Investments entail above average operating and business risk.

b. Liquidity Risk: Investments lack liquidity and typically have time horizons of 5-to 10 years.

c. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action. These basic protections may include specific termination provisions in partnership transactions or the removal of general partners.

d. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline.

e. Leverage Risk: Investments may employ a substantial degree of leverage, which, depending on the specific terms, could result in significant risk.

f. Sovereign Risk: Investments outside the US, and particularly in developing markets, could face risks associated with political, economic, and currency instability.

3. **Quality Control Process**

The Consultant shall employ a quality control process to track investment performance, manage risk, and monitor Program efficiency.

a. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate, and to the expected return for the investment.

b. Risk Control: The Program's standards are maintained through the following processes:

   i. Assessing the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.

   ii. Assessing manager and investment vehicle business and operational risks.

   iii. Documenting due diligence activities.

c. Process Monitoring: monitor transaction processing to insure timely decision-making and an effective process.

APPENDIX C: PRIVATE REAL ESTATE PORTFOLIO INVESTMENT GUIDELINES

I. STATEMENT OF PURPOSE

The Private Real Estate Investment Policy ("Policy") is designed to ensure that investment managers, consultants, and SBCERS Board and investment staff engage in prudence and reasonableness while investing the SBCERS Private Real Estate Program ("the Program"). Additionally, adherence to this Policy should provide assurance that there is sufficient flexibility in managing the investment risks and returns associated with the Program.

The Program began in 2010. The Board has engaged a specialist Consultant ("Consultant") to oversee and manage the Program. The Consultant shall serve in a discretionary capacity and is responsible for discretionary management and control of the assets allocated to the Program. The Consultant is also the investment manager of the Program.

II. STRATEGIC OBJECTIVE

The strategic objective of the Program is to develop a diversified private real estate portfolio capable of achieving investment returns commensurate with Program targets. Private real estate investments ("investments") are expected to achieve attractive risk-adjusted returns through active management and ability to access managers with the expertise and capabilities to exploit market opportunities in the asset class. Private real estate investments, by definition, possess a higher degree of risk with a higher return potential than traditional public market real estate investments. They are expected to have a low correlation to other investment classes and therefore contribute to enhancing the risk-return of a total portfolio.

Investments shall be considered solely in the interest of the System's participants and their beneficiaries in accordance with applicable law and shall be selected to accomplish the following:

1. Enhance the System's performance result by generating strong long-term results.

2. Hedge against unanticipated inflation, which real estate has historically provided due to lease structures and the increases in material and labor costs during inflationary periods.

3. Invest in unique opportunities that arise due to dislocations in markets that occur from time to time.

4. Provide diversification to SBCERS' overall investment program.

III. PERFORMANCE OBJECTIVE AND BENCHMARK

The long term objective for the program is a real rate of return (in excess of inflation) of four and one-half percent (4.5%), net of investment management fees. This return shall be calculated on a time-weighted basis using industry standard reporting methodologies as defined by Global Investment Performance Standard ("GIPS") and the National Council of Real Estate Investment Fiduciaries ("NCREIF") on a three, five and ten-year basis. The Benchmark for the program is the National Council of Real Estate Investment Fiduciaries Open-Ended Diversified Core Equity Index over rolling five-year periods net of fees.

IV. RESPONSIBILITIES AND DELEGATIONS

The Board shall, from time to time, approve and amend both this Policy and the Annual Strategic Plan as presented by the Consultant. In addition, the Board shall oversee the Program's performance and will act in a fiduciary capacity in the exercise of its duties.

Investment Staff shall:

1. Oversee day-to-day investment operations not performed by the Consultant and ensure the availability of cash to fund investment commitments.
2. Review Consultant's work to ensure completeness, thoroughness and accuracy.
3. Assist Consultant in making recommendations to the Board on written guidelines and policies.
4. Assist Consultant in working with SBCERS Counsel on legal matters.
5. Coordinate on-going reporting to the Board.

Consultant shall:

1. Assist in the development and implementation of the Program.
2. Be responsible for discretionary management and control of the assets allocated to the Program subject to the limitations of this policy, and direct all decisions to buy, hold, and sell Program assets.
3. Conduct due diligence on investment opportunities under consideration and negotiate agreements on behalf of SBCERS in conformance with contract and side letter templates and provisions established by SBCERS legal counsel.
4. Acknowledge and act as a fiduciary to SBCERS.
5. Monitor individual partnerships, including compliance with established investment mandates and negotiated agreements as part of its process for monitoring the total portfolio.

6. Prepare the Annual Strategic Plan that includes an annual pacing plan and present such to the Board, as soon as practicable after the first of the year.

7. Promptly alert the Board and Staff of any changes or events that would reasonably impact the Program.

8. Notify investment staff at least six (6) business days prior to the required funding of capital calls.

9. Provide quarterly performance reports to the Board of Retirement and Investment Staff that assess investment performance of partnerships and address following areas:

   a. Objectives established by the partnership.

   b. Risk undertaken.

   c. The long-term performance objective, with appropriate interpretation if applied to the short-term.

   d. All commitments, secondary sales and invested fund closures.

10. Consultant shall provide annual reports that comply with California laws applicable to reporting fees for investments in this asset class.

V. INVESTMENT APPROACHES AND PARAMETERS

1. General Approach and Target Exposures

Investments will include open-end and closed-end commingled funds with an expectation that a larger portion of the portfolio will be invested in closed-end commingled funds.

a. Open-end funds: The open-end funds have liquidity provisions where investors can seek redemption, typically on a quarterly basis, although there are periods of time when many open-end funds have gates erected and liquidity is limited.

b. Closed-end funds: Closed-end funds generally have a set investment period and a defined termination date. Closed-end funds typically have durations of seven to ten years. These vehicles generally call capital over a three-year period and often commence returning capital prior to the fund being fully invested. As a result, the Consultant may from time to time over commit the portfolio above the target allocation. The Consultant will evaluate the impact of funding each new investment above the target allocation and provide quarterly reports to the Board highlighting the assumptions in cash flow.

To the extent the open-end funds and other liquid investments allow, open-end funds may be utilized to rebalance the portfolio to the target allocation. The Program is expected to be diversified by industry sector, strategy, property type, geographic location, vintage year and investment manager in order to reduce the volatility of real estate returns and the risk of loss of capital.

Sector
The program is to be diversified across the following sectors, Core, Value-Added and Opportunistic. The Consultant shall maintain a minimum (40%) percentage of the portfolio in low-risk investments that will be generally considered Core and may be structured in the form of equity or debt. The remainder of the portfolio will not be tied to specific targets, but will be monitored regularly to maintain prudent levels of diversification.

Sector	Target
Core	40-80%
Value-Added	10-35%
Opportunistic	0-25%

Core Investments
Core investments are defined as stable and income producing properties with lower risk.

a. Operating, substantially leased office, retail, industrial or apartments/multi-family properties.

b. Target unleveraged total returns of 6%-8% per year, gross of fees, with a high proportion of the total return (70% to 100%) to be generated from current income with a smaller portion of the total return (0% to 30%) generated from appreciation.

c. Leverage is generally limited to no more than 50% loan to value with comfortable debt service coverage ratios that are dependent on property type, cash flow coverage and interest rate environment.

d. Core investments may include property types other than traditional investments when the cash flow or appreciation characteristics are similar to traditional Core property types.

Value-Added Investments
Value-added Investments are defined as properties with an identifiable deficiency that can be corrected and converted to Core.

a. Office, retail, industrial or apartments/multi-family properties that have moderate risk.

b. The additional risk associated with Value-Added investments is generally a deficiency that is identifiable and correctable through leasing, re-development, management and/or recapitalization.

c. Value-Added investments may include property types other than traditional Value-Added investments when the risk/return characteristics are similar to the traditional property types.

d. Target gross-of-fee total returns for Value-Added investments are at least 200 basis points per year higher than for Core Investments.

e. Leverage for Value-Added investments is generally limited to 70% loan to value (portfolio and property level).

Opportunistic Investments
Opportunistic Investments have greater risk characteristics such as distressed assets, development, land and international properties.

a. Opportunistic investments can be comprised of any property sector including office, retail, industrial, hotels and apartments/multi-family properties with high-risk attributes.

b. Leverage is generally limited to 70% loan to value; however, may be higher in certain cases (property and portfolio level).

c. Target gross-of-fee total returns for Opportunistic investments are at least 600 basis points or more per year than for Core investments in order to compensate for the increased risk.

Property Type Diversification
The Program will be diversified through investments in office, retail, apartments/multi-family, industrial and non-traditional categories such as hotels, self-storage, senior housing, student housing, land, for sale residential and other property types.

Property Type	Target
Office	10-35%
Retail	10-35%
Apartments/Multi-family	10-35%
Industrial	10-35%
Other*	0-30%

* Hotel, land, for sale residential, self-storage, senior housing, etc.

Geographic and Economic Location Diversification
The Program shall include investments diversified across various locations globally and in economies with different economic concentrations. The portfolio shall be predominantly U.S. No more than 15% of the total program assets shall be allocated to any other single country outside the U.S.

Investment Manager Diversification

The Program will utilize various investment managers and will limit the amount committed to one investment manager to no more than twenty percent (20%) of the total Program, measured at the time of the commitment to the investment.

Vintage Year Diversification
The Program will invest in funds across vintage years in order to avoid excessive exposure to any one real estate cycle. Not more than twenty-five (25%) of the total program assets will be invested in any one vintage year.

Investment Size
The maximum investment size for any single investment shall be limited to fifteen percent (15%) of the total Program assets, measured at the time of the commitment to the investment.

Commercial Mortgages
No more than 25% of total program assets shall be invested in Commercial Mortgages.

Commercial Mortgages have bond-like risk/investment characteristics, with real estate serving as collateral. Commercial Mortgage returns are sensitive to interest rates, spreads and credit quality. The duration of a commercial mortgage portfolio can be high due to yield maintenance pre-payment penalties in many commercial mortgages. Investment in Commercial Mortgages can be accomplished through public or private market vehicles and can be investment grade (Core) or non-investment grade (Value-Added or Opportunistic).

The long-term expected return, depending on the strategy, is 150-300 basis points over comparable treasuries or considerably higher for value added and opportunistic debt strategies.

2. Specific Risk Parameters

The Program will be exposed to specific risks that are associated with investing in private real estate, including but not limited to:

a. Leverage Risk - There shall be a limit of 65% Loan to Value limit of the total Program portfolio, calculated on a quarterly basis. Leverage is an inherent component of real estate investments and the use of leverage can be an effective means to increase overall returns from time to time on a risk-adjusted basis. However, highly leveraged investments also carry additional risks that shall be monitored by the Consultant within the context of the overall real estate portfolio. All portfolio leverage will be secured through the individual investments within the commingled funds. There will be no recourse to SBCERS permitted beyond the capital commitment to a Fund.

b. Liquidity Risk: Investments in closed-end funds lack liquidity and typically have time horizons of 7+ years. Open-end funds provide liquidity to the extent that certain withdrawal parameters are met and the manager has sufficient funds to pay the withdrawal.

c. Structural Risk: Specific fundamental rights and protections are negotiated, which include mechanisms for taking remedial action in certain situations which may include provisions for removal of general partners in certain situations.

d. Valuation Risk: Partnerships shall be evaluated to determine if the general partner has a documented valuation policy and follows their policy.

e. Sovereign Risk: Investments outside the U.S., and particularly in developing markets, could face risks associated with political, economic and currency instability.

3. Quality Control Processes

The Consultant shall employ a quality control process to track investment performance, manage risk and monitor Program efficiency.

a. Monitoring Portfolio Performance: Actual returns will be compared to the benchmark(s) as appropriate and to the expected return for the investment.

b. Risk Control: The Program's standards are maintained through the following processes:

   i. Assessing the level of compliance to the stated Target Exposures and diversification in the portfolio on a continual basis.

   ii. Assessing manager and investment vehicle business and operational risks.

   iii. Documenting due diligence activities.

c. Process Monitoring: Monitor transaction (capital calls and distributions) processing to ensure accurate reporting. Monitor the investments in each manager's portfolio to ensure compliance with Manager's stated objectives.