INVESTMENT POLICY STATEMENT

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I. INTRODUCTION

The purpose of the Sonoma County Employees' Retirement Association (SCERA) is to provide and protect retirement benefits for its members and beneficiaries. To provide for these benefits the SCERA trust receives contributions from employers and employees which are then invested. To guide the investment of these funds the Retirement Board ("the Board") has prepared this Investment Policy Statement ("the Policy") within the context of applicable California laws. The statements contained in this document are intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure prudence and care are maintained in the execution of the investment program.

The Board has arrived at this Policy through careful study of the returns and risks associated with alternative investment strategies in relation to the current and projected liabilities of SCERA. This Policy has been chosen as the most appropriate policy for achieving the financial objectives of SCERA which are described in the Objectives section of this document.

The Board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of SCERA will be invested in a manner that provides the safeguards and diversity that a prudent investor would adhere to. All transactions undertaken on behalf of SCERA will be in the sole interest of the Participants.

II. INVESTMENT PHILOSOPHY

The following statements represent the investment principles and philosophy governing the investment of assets held for the benefit of the Sonoma County Employees' Retirement Association (SCERA). These statements describe the core values and beliefs that will form the basis for investment decisions.

These commonly held fundamental investment beliefs are:

A. The publicly-traded markets are largely efficient because of the broad availability of information. As a result, after considering the costs of trading and management fees, public equities are the major capital market where passive management is viewed as appropriate. Furthermore, there are market segments within public equities, such as small capitalization equities and emerging market equities, where market efficiency is moderately lower, thus affording investors better active management opportunities. SCERA believes the most optimal structure for equity investing is with a passive core allocation surrounded by high-confidence active managers. There is no explicit targeted percentage for passive or active equities. Active management is viewed as most appropriate in fixed income, primarily because passive alternatives do not fully encompass the opportunity set and the incremental cost of moving from passive to active management is generally more modest in fixed income and, as a result, more easily justified. Active management is also utilized in private markets, such as real assets, as truly representative passive alternatives are not available.

B. The single most important decision the Investment Committee makes is the long-term asset allocation decision. As a result, SCERA will periodically conduct asset allocation studies to assess the fund's risk exposures and the probability of achieving its long-run return goals.

C. Investment risk cannot be avoided, but can be managed and it is appropriate to assume a prudent level of risk to achieve a desired level of return. The management of investment risk is an important part of the Plan's Investment Philosophy Statement but, because of its complexity, a more robust discussion is provided below under the Risk Philosophy Statement.

D. The achievement of long-term investment goals is the result of sound strategic decisions and consistency in implementation. Ad-hoc asset or manager allocations are likely to result in poor outcomes. As a result, SCERA will generally delegate tactical implementation decisions to its investment managers, and SCERA will normally avoid ad-hoc re-allocations to any manager or asset class in reaction to recent market conditions.

E. The capital markets are mean-reverting by nature. As a result, SCERA will use long-term strategic asset class allocations and rebalance to those allocations within tight ranges by using a combination of physical assets and derivative exposures. See the Asset Allocation Targets and Ranges and Rebalancing Guidelines sections for details.

F. Short-term market timing is generally ineffective as a strategy for institutional funds. As a result, SCERA will typically require managers to remain fully invested in all long-term mandates. Exceptions are made for managers with asset allocation mandates or those which SCERA believes have the ability to manage cash effectively.

G. It is necessary to use long time frames and appropriate benchmarks to fairly evaluate active manager performance. Performance differences in asset classes, strategies, styles (growth, value), and market capitalizations will have multi-year cycles. Even the best performing managers may have periods of both under- and over-performance relative to their benchmarks. As a result, SCERA will use long time frames (rolling 3- and 5-year periods) and appropriate investment benchmarks when evaluating managers.

H. Investment implementation should be cost and resource effective. As a result, when evaluating asset classes and implementation strategies, SCERA will also examine monitoring costs, incremental investment risks and operational risks, as well as the incremental returns.

III. RISK PHILOSOPHY

The Investment Committee believes in a broadly diversified portfolio with a combination of asset classes in proportions designed to provide a desired risk-return profile. While there are many types of investment risks and various methods for estimating them, one construct is to think in terms of systematic or market risk and non-systematic risk. The broadly diversified portfolio limits non-systematic risk and leaves principally the systematic risk associated with the asset classes included in the asset allocation mix. Where the systematic risk is complex and difficult to properly assess and has the potential for significant long-term loss of value, limits and/or restrictions may be imposed. Such an example would be the potential for confiscation of Plan assets by a country that lacks a legal system protecting investor rights.

Modest levels of non-systematic risk are inherent when the Plan employs active investment managers but, in these cases, risks are mitigated and constrained by imposing limits on the investment manager's freedom to deviate from the benchmark and by employing investment managers with complementary approaches to investing. (See the Investment Guidelines section below for details.)

As stated, there are many forms of investment risk, but the greatest hazard for SCERA is the risk over the long-term of a shortfall in assets relative to the Plan's liabilities. Other forms of risk, including short-term volatility, are subordinate to this shortfall risk. One way we measure our progress toward this long-term funding goal is by comparing SCERA's net return to the actuarial assumed rate-of-return over the short- and intermediate-term. The estimate of the liability is adjusted periodically by SCERA's actuary based on experience, Plan design and the assumed rate-of-return and is adjusted when capital market expectations materially change or the asset allocation is modified. When estimating returns and risks for planning purposes the Investment Committee relies on staff, SCERA's investment consultant, subject matter experts and industry best practice.

The element of time is an important factor when estimating risk. The most common form of risk is arguably short-term volatility which is often measured by the standard deviation of returns. While SCERA has a long investment horizon, short-term volatility is relevant because it reflects the best current estimate of the market value of the assets and because it can impact the contributions of the sponsors and, as a result, their ability to fund the Plan in a healthy manner. On the other hand, given SCERA's long investment horizon a prudent level of short-term volatility may be accepted if it is believed that the Plan will be compensated for this risk with higher long-term returns. As an example, equities are typically more volatile over the short-term than fixed income, the other major asset class, but over the long-term equities have consistently provided a higher level of return. As a result, and given SCERA's long-term horizon, the Investment Committee has determined that it was an appropriate risk-return tradeoff for a majority of the Plan's assets to be invested in a diversified portfolio of equities. Similarly, illiquidity is a short to intermediate term risk of which a certain amount can be accepted when the market appears to offer additional incremental return as an inducement. However, not so much illiquidity will be accepted as to jeopardize the Plan's ability to meet its cash flow obligations. It is also acknowledged that as the Plan matures it is typical that net cash outflow as a share of Plan assets will increase, reducing SCERA's tolerance for illiquidity. Other forms of short- and intermediate-term risks are being monitored and managed including, but not limited to, inflation risk, interest rate risk, currency risk, geopolitical risk and active management risk.

IV. DUTIES AND RESPONSIBILITIES

A. The Retirement Board (the "Board")

The Board is responsible for overseeing the investment activities of SCERA. The Investment Committee is authorized to act on behalf of the Board, without necessity for further Board action or approval, with regard to all investment related matters. This includes, but is not limited to, selecting acceptable asset classes, defining allowable ranges of holdings by asset class and by individual investment managers as a percent of assets, defining acceptable securities within each class, establishing investment performance expectations, and making revisions to this investment policy as necessary.

The Investment Committee selects, retains and replaces investment managers and all other external investment service providers. The Investment Committee will also review investment performance at least quarterly, assure the policy is being followed, and evaluate the progress being made toward achieving objectives.

A reference to the powers, duties or authority of the Board in this Investment Policy after this subsection A may be read as a reference to the Investment Committee acting on behalf of the Board.

B. The Investment Committee (the "Committee")

The Committee will be comprised of all Board members. Generally, the Committee meets monthly. The Committee is charged with administering the SCERA investment program, with duties and responsibilities as provided herein and in the Investment Committee Charter.

C. Investment Staff

The Chief Investment Officer and the investment staff serve the Investment Committee by implementing Committee decisions. The CIO and investment staff carry out the day-to-day activities of overseeing the Plan's investment portfolio in accordance with the policies and procedures adopted by the Board. They organize and, with the support of the investment consultant, prepare materials and recommendations for Investment Committee meetings, oversee investment managers and other investment service providers and report to the Committee on performance.

D. External Service Professionals

SCERA assets will be managed by professional investment managers except to the extent the Board specifically delegates investment authority for Cash Management portfolios to the Treasurer of Sonoma County or State of California investment pools.

E. Hiring Process and Review of Investment Managers and Other External Service Providers

Once the Board determines that a new or replacement manager assignment is warranted, the CIO and investment staff lead the process of selecting a manager. Staff, with the support of the investment consultant, conducts due diligence in regard to the proposed mandate and available manager candidates. This due diligence combines qualitative and quantitative factors including, but not limited to, the investment philosophy of the firm, stability of the organization, the quality of investment staff, the investment process used, terms and conditions, and absolute and relative performance. Staff, with the support of the consultant, presents a single investment manager for engagement to the Investment Committee for approval, contingent upon negotiation by staff of acceptable terms and conditions.

As it relates to all external service providers, a thorough and careful screening is conducted and reviewed for approval by the Board. Some of the criteria that all external professional organizations must meet include:

1. Significant experience in each of their industries and with similar institutional client funds.
2. Qualified and respected professionals working for SCERA's account.
3. A track record for that organization that would indicate added value to SCERA's investment program in the future.
4. All professional investment organizations rendering advice or managing assets must file a Form ADV with the US Securities & Exchange Commission in accordance with the Investment Advisors Act of 1940 or be exempt from such

filings, such as mutual funds, bank investment subsidiaries or other exempt organizations or structures.

F. Investment Consultant

The Board may conduct a search for and engage an investment management consultant ("Consultant"). The Consultant is an externally hired investment management consultant that provides objective and ongoing performance evaluation of SCERA's investment managers, compliance monitoring of the investment managers relative to established guidelines and objectives, and consulting advice on various investment issues. At a minimum, the Consultant meets with the Board on a quarterly basis and more frequently with members of the SCERA staff and the Committee.

Roles and responsibilities of Consultant may include the following:

1. Conduct a search for professional investment managers for the Investment funds (as set forth in these initial policies);
2. Upon request, negotiate fee arrangements and other contract terms with the investment managers on behalf of SCERA;
3. Provide the Board with quarterly performance evaluations for each investment manager;
4. Advise on brokerage and custodial services;
5. Make recommendations regarding reaffirmation and modification of these policies as needed and during the triennial review process;
6. Handle certain other matters, primarily reporting, as described elsewhere in this statement. Specific duties will be as per approved contract or contracts with Consultant;
7. Have no conflict of interest in making recommendations and providing investment advice to SCERA, i.e., Consultant cannot recommend external consultants (investment managers, custodians, prime brokers and other consultants) where they would derive economic benefit from that recommendation. Any cross ownership between Consultant and other external consultants that SCERA may contemplate using must be disclosed.

G. Investment Manager(s)

Externally hired investment managers invest the funds on behalf of SCERA pursuant to SCERA's policies and guidelines established for the overall investment program as well as each manager's established investment policies, guidelines, and objectives.

The Board is authorized and permitted to engage the services of Investment Manager(s) who possess the necessary specialized research facilities and skilled manpower to meet SCERA's investment policies, objectives, and guidelines. Accordingly, the Board requires the Manager(s) to adhere to the "prudent investor rule."

All manager guidelines must be in accordance with the Investment Policy Statement of SCERA. All modifications of the Statement will be in writing and signed by the Board as an amendment to this document. Copies of any and all modifications to this document will be forwarded to Consultant, Managers and other interested party(ies).

H. Custodian/Trustee

The custodian/trustee is the Trust Division of a major investment-center bank. Their primary function is to hold in custody all the securities that each of the investment managers manage in their portfolios, except for commingled funds or mutual funds which may be held elsewhere. The custodian issues a monthly report detailing the securities transactions processed during that month as well as a listing of the market values for each security that is in the portfolio at the end of each month.

I. Prime Broker and Like Services

The prime broker facilitates a role similar to the custodian and primarily will be utilized as a trade settlement agent. In addition, a prime broker will hold custody of assets and prepare and issue account statements. In terms of executing trades, the use of a prime broker will be limited to the facilitation of implementing investment manager strategies designed to take advantage of the investment manager's skill in shorting equity securities, including locating securities to be borrowed for short sales. Execution of purchases, sales, short sales and covers may be accomplished through the prime broker or another executing broker. In addition, the prime broker will be permitted to re-hypothecate securities held in any account at the prime broker in accordance with the prime brokerage agreement. Only investment managers having specific guidelines that allow the shorting of equity securities are to effect dealings with the prime broker.

J. Transition Managers

Transition managers are used to move assets between accounts and/or cash. Their objective in these transitions is to minimizing costs and performance slippage versus a market benchmark. These managers may also provide "interim management" services where they oversee a pool of assets from a terminated manager until a replacement manager can be identified. Similarly, to the selection of investment managers, investment staff with the support of the Plan's investment consultant, evaluate and bring recommended candidates to the Retirement Board.

K. Auditor

The auditor provides an examination and a verification of all the assets in SCERA's investment program.

L. Actuary

The actuary is a hired professional who produces a valuation report on the funding liability of SCERA.

V. INVESTMENT OBJECTIVES

The investment objectives of SCERA are guided by the California Constitution, state statutes and policies adopted by the Board. In general, the Board desires to obtain the optimum return on the portfolio consistent with the assumption of prudent risk. While safety of principal is given primary consideration, the Board believes in both active and passive asset management in order to obtain the highest attainable total investment return (income plus appreciation). Specific investment objectives are as follows:

A. Meet or Exceed Funding Liability

To fully fund the Actuarial Accrued Liability of SCERA.

B. Primary Objectives

To exceed the long-run actuarial assumption for return on assets. The risk to be assumed must be considered appropriate for the return anticipated and consistent with the total diversification of the fund.

C. Secondary Objectives

Secondary objectives are to obtain investment returns similar to funds of comparable size and with similar investment objectives and restrictions and to achieve results for the components of the funds similar to those of relevant investment indices.

D. Time Horizon

In making investment decisions and in evaluating investment performance, the Board shall focus on a long-term investment time horizon of at least three (3) to five (5) years or a complete market or economic cycle.

E. Risk Tolerance

Although pure speculation is to be avoided, the Board appreciates the fact that above average return is associated with a certain degree of risk. See the comments on risk in the Investment Philosophy and the Risk Philosophy sections found earlier in this document.

F. Liquidity Requirements

It is staff's responsibility to maintain sufficient liquidity to meet retiree payroll and other obligations on a timely basis. To accommodate these commitments a level of cash is maintained to meet near-term cash flow requirements but this exposure is securitized by the Plan's cash overlay manager to effectively eliminate exposure to this typically lowest earning asset class, often referred as "cash drag."

G. Investment for Social Purposes

The Board believes that its sole fiduciary responsibility is to the members of the Retirement Association and their beneficiaries. The duty requires the Board to diversify the investments of the system to minimize the risk of loss and maximize the rate of return, unless under the circumstances it is clearly not prudent to do so [California Constitution Article XVI Section 17(d)]. Consequently, the Board may not approve investments with less than competitive risk-adjusted expected returns in order to benefit another group of people or some project considered socially desirable. However, the Board may support investments that provide some economic or social benefit if they fit into the Plan's investment program and offer competitive risk-adjusted expected returns.

VI. ASSET ALLOCATION TARGETS AND RANGES

A. It shall be the policy to invest assets in keeping with the following targets and ranges:

Asset Class & Style	Trigger for Physical Rebal	Physical Rebal Target	Policy Target %	Physical Rebal Target	Trigger for Physical Rebal
Core Plus Fixed Income	**10.0%**	**11.5%**	**12.0%**	**12.5%**	**14.0%**
Alt Fixed Inc – Bank Loans	**2.0%**	**2.75%**	**3.0%**	**3.25%**	**4.0%**
Total Fixed Income	**13.0%**	**14.0%**	**15.0%**	**16.0%**	**17.0%**
Core Real Estate			10.0%		
Farmland[3]			8.0%		
Infrastructure			8.0%		
Total Real Assets	**21.0%**	**26.0%**	**26.0%**	**26.0%**	**31.0%**
Broad Mandate		8.75%	9.0%	9.25%	
Large Cap		8.0%	8.5%	9.0%	
Small Cap		3.75%	4.0%	4.25%	
Total US Equities	**19.5%**	**20.5%**	**21.5%**	**22.5%**	**23.5%**
Non-US Equities	**19.5%**	**20.5%**	**21.5%**	**22.5%**	**23.5%**
Global Equities	**14.0%**	**15.0%**	**16.0%**	**17.0%**	**18.0%**
Total Equities	**56.0%**	**57.0%**	**59.0%**	**61.0%**	**62.0%**
Total Strategic Portfolio[1]			**100.0%**		
Opportunistic Allocation[2]			**0-6%**		

[1] A cash balance is maintained for cash flow purposes but is securitized resulting in minimal economic cash exposure.

[2] In August 2015 SCERA committed $75 million, or approximately 3% of Plan assets, to the Davidson Kempner Special Opportunities Fund III (DK SOF III), a distressed debt opportunity fund. This investment has a lock-up of 3.5 to 5.5 years. SCERA committed $50 million in July 2017 to DK SOF IV whose lockup was extended to 4.5 to 6.5 years. All of the DK investments are part of the Opportunistic Allocation and are funded proportionately from the strategic asset allocation. Results are aggregated for the manager with performance benchmarked first against a dollar-weighted return on the Plan's Total Fund Policy Index and second against the Plan's assumed rate-of-return.

[3] On September 29, 2022, the Retirement Board approved an increase in the Farmland policy weight from 5% to 8%, with a corresponding decrease in Core Plus Fixed Income from 14% to 12% and a decrease in Global Equities from 17% to 16%. This change was not implemented at that time, but discretion was delegated to staff to implement this change when the preponderance of the capital committed to the new Farmland fund, the Fiera Comox Global Agriculture Open-End Fund, had been invested.

B. The Plan's cash overlay manager is authorized to rebalance using derivatives with the following targets and ranges:

Asset Class & Style	Trigger for Derivative Rebalance	Policy Target %	Trigger for Derivative Rebalance	Overlay Contracts/Notes
Total Fixed Income	**14.0%**	**15.0%**	**16.0%**	US Treasuries
Total Real Assets		**26.0%**		Not Applicable
Broad Mandate	8.0%	9.0%	10.0%	S&P 500/S&P Midcap/ Russell 2000
Large Cap	7.5%	8.5%	9.5%	S&P 500
Small Cap	3.5%	4.0%	4.5%	Russell 2000
Total US Equities		**21.5%**		
Non-US Equities	**20.5%**	**21.5%**	**22.5%**	MSCI EAFE & Emerging Market Equity
Global Equities	**15.0%**	**16.0%**	**17.0%**	US & Non-US Equity
Total Equities	**57.0%**	**59.0%**	**61.0%**	
Total Strategic Portfolio		**100.0%**		

VII. REBALANCING AND CASH MANAGEMENT

A. Implementation of changes in the strategic or long-term policy asset allocation is a process and identification and funding of investment managers may not be uniform. As such, full or partial funding of new policy allocations may result in disharmony with established target policy allocations and their respective ranges. Under these circumstances, staff will make every reasonable effort to minimize the length of time to reach the new policy asset allocation and execute the transition most efficiently.

B. The asset allocation ranges established by this Policy represent the Board's appetite for risk and the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will, over the long run, provide the greatest risk adjusted return to the fund.

C. Observations of the investment portfolio shall be conducted on an ongoing basis and shall be based upon data provided by SCERA's investment custodian bank or prime broker where available. For investments without daily valuations, SCERA staff will utilize their best estimates, utilizing the investment's most recent valuation and period-to-date asset class returns. It shall be the responsibility of SCERA staff, or the Plan's cash overlay manager if rebalancing authority is delegated to said manager, to rebalance among the allowable strategic asset classes and individual portfolios at such time that any of the asset classes fall outside of the prescribed ranges.

D. Regarding rebalancing with derivatives, at the point that either the minimum or maximum trigger for a derivative rebalance for any asset class with an exposure range in the derivative rebalancing table above has been breached, all asset classes and sub-asset classes detailed in said table shall be rebalanced back to the predefined targets using derivative exposures to the extent reasonable given contract sizes. Real Assets and Alternative Fixed Income may be excluded from the derivative rebalance due to a lack of cost-effective derivative contracts. The monitoring and execution shall be undertaken by the cash overlay manager or staff utilizing outsourced trading of the overlay derivatives.

E. Regarding rebalancing with physical securities, it is understood that, for a variety of reasons, it cannot be as mechanical as rebalancing with derivatives. These reasons include near-term cash planning needs, the illiquidity of some asset classes and because the sum of the targets for physical rebalancing will typically not add to 100% so they cannot all be reached. This is not of particular concern because the major asset class exposures (US Equities, Non-US Equities and Fixed Income) should remain close to their policy weights after consideration of the cash overlay program. The physical rebalancing ranges are wider than those for derivative rebalancing because of the greater cost of transacting with physicals but keep manager mandates from drifting too far from their intended allocations. Generally, at the point that any minimum or maximum trigger in the table above for physical rebalancing is breached, staff will move the detailed mandates and asset classes back toward the matching target for physical rebalancings. However, a "partial rebalancing" may be appropriate given cash needs and because the matching physical rebalancing target weights may not add to 100% and, as a result, cannot all be reached.

F. With the consultant's input, staff will have the authority to affect the following:

1. include or exclude illiquid investments from the rebalancing program,
2. exclude opportunistic investments from the rebalancing program,
3. conduct a partial rebalancing in an effort to raise cash for near-term needs or simply because it is not possible to reach all of the matching physical rebalancing targets,
4. delay or alter the rebalancing from the strict asset allocation targets and ranges stipulated in the Policy and
5. engage a transition manager to assist in the rebalancing.

When the physical rebalancing is modified by staff, the focus shall be on the overall risk/return characteristics of the Plan's investments, liquidity constraints, and the Plan's cash flow needs. Although authority to rebalance as stated above is delegated to SCERA staff, a report detailing the movement of funds necessary to carry out that rebalancing shall be provided to the Investment Committee at the next scheduled meeting following the completion of the rebalancing transactions. If a transition manager is utilized, a post-trade analysis report will also be provided.

G. When managing the investment of contributions, or withdrawals from the Plan, staff will have the discretion to address the potential illiquidity of certain investments, such as real estate, and the corresponding additional time that may be necessary to transact. When raising/investing cash, staff will liaise with the overlay manager to realign derivative exposures as necessary. Additions to and withdrawals from the Plan will generally be accomplished with an effort to move the Plan's asset allocation toward its policy targets with consideration for near-term cash needs and the liquidity of the mandates impacted. If there are any remaining overweights and underweights in the liquid strategic mandates or asset classes, staff will generally attempt to spread them proportionately while also working to manage transaction costs.

VIII. INVESTMENT GUIDELINES & STRUCTURE

A. General

1. All investments shall comply with all applicable laws of the State of California governing the investment of the pension funds of counties.

2. All securities transactions shall be executed by reputable broker/dealers or banks, including any bank acting as custodian, and shall be on a best execution basis.

3. Investments shall possess value and quality corroborated by accepted techniques and standards of fundamental economic, financial and security analysis.

4. There will be instances where the preferred method of implementing a strategy is through a commingled vehicle (e.g., trust, mutual fund, limited liability company or limited partnership). Such vehicles are managed in accordance with their own governing documents. In case of any investment in a commingled vehicle, the governing documents of such vehicle will control. As a result, in the case of commingled vehicles, guidelines found in this Policy are an expression of the general desirability of specific attributes of such investment strategies and are not binding on

the investment manager. When considering an investment in a commingled vehicle, staff will review with the Investment Committee the controlling guidelines of the vehicle and contrast them with the guidelines in this document to assess appropriateness. In the case of separately managed accounts, the guidelines found in this Policy shall control.

5. In cases where a separate account manager may wish to use a commingled vehicle (typically which they themselves manage) to gain exposure to a subset of the market in which they invest, the use of said vehicle will require prior approval by SCERA and should not cause a violation at the total portfolio level of applicable investment guidelines found in this Policy. However, as noted above, commingled vehicles are managed in accordance with their own governing documents and guidelines. As a result, SCERA may give approval to a separate account manager to invest in a commingled vehicle that generally complies with SCERA guidelines but may employ strategies not specifically authorized by these guidelines. Such situations will be addressed on an individual basis but in all cases the use of such vehicles will require prior approval by SCERA.

6. Managers should work with SCERA staff to take into consideration investment decisions that result in material administrative burden on the part of SCERA staff. Examples include the necessity for SCERA staff to open foreign markets or file for tax reclaims.

7. To avoid potential long-term impairment of value from inestimable sovereign risk, when possible, managers will be prohibited from investing in countries with a poor Rule of Law rating. The Board shall utilize a third-party rating system for making this determination. The Board's view will be supported by staff research and other reputable sources. Separate account managers will be provided with a list of prohibited countries/markets. Commingled vehicles may include inadequate Rule of Law countries but their inclusion, and the size of the potential exposure, will be considered when investing.

B. Core Fixed Income

1. The core fixed income portion shall be invested in marketable and diversified securities including, but not limited to the following:
   a. Obligations of the US Treasury;
   b. Obligations with a direct or implied guarantee by an agency of the United States;
   c. Certificates of deposit and banker's acceptances;

d. Commercial paper (including variable rate notes). A minimum of 80% should be rated A1/P1 with no more than 20% rated A2/P2. CP 4(2) private placement holdings are permitted;

e. Corporate notes and bonds, and other fixed income investment, including:

i. US Dollar denominated bonds of foreign issuers (Yankee Bonds)
ii. Developed & Emerging Market Local Currency Debt
iii. Eurobonds
iv. Municipal Bonds
v. Asset-Backed and Collateralized Securities, such as Auto Loans, Credit Card Debt and Manufactured Home Debt
vi. Mortgage-Backed Securities, including CMOs, PACs and other structures
vii. Commercial Mortgage-Backed Securities
viii. Section 144A Private Placements
ix. Collateralized Bank Loans and Collateralized Debt Obligations
x. Warrants, Preferred Stocks and Convertible Securities
xi. Credit Default Swaps
xii. Interest Rate Swaps

2. Core fixed income portfolios must have an overall, market value weighted average quality of no more than four notches below the average quality rating of the Plan's Core Fixed Income benchmark. For example, if the benchmark's average credit quality is AA, then the portfolio shall maintain a minimum average quality of A-. In no circumstance will the average credit quality be allowed to fall below BBB (BBB- in cases where the manager has been given explicit additional flexibility). For purposes of determining compliance with ratings, if a security is rated by two rating agencies (e.g., Moody's and S&P), then the lower of the two shall apply. If a security is rated by three agencies (i.e., Moody's, S&P, and Fitch), then the middle rating shall apply. If a security is only rated by one rating agency, then the lower of the rating agency rating or the manager's internal rating shall apply. If the average credit quality of the benchmark is a split rating, the lower of the two ratings will be used to calculate the minimum average credit quality required for the managers.

3. Core fixed income managers may purchase out-of-benchmark or "plus" sector securities in their attempt to "add value" over the benchmark. These plus sectors will include, but may not be limited to, Below Investment-Grade or "High Yield", Emerging Market Debt and Non-

Dollar Bonds and will be limited to a total maximum of 20%. Individually, each plus sector shall be limited as follows:

a. High Yield maximum exposure of 15%
b. Emerging Market Debt maximum exposure of 20%
c. Non-Dollar Bond maximum exposure of 20%

4. Up to a maximum of 2% of the portfolio may be invested in bonds rated CCC/Caa or lower.

5. Foreign-denominated notes or bonds are permitted up to 20% of the portfolio on a cost basis. Forward currency contracts, cross hedging of currencies, and covered currency options are allowed, but only for hedging purposes; a maximum of 10% of the portfolio may be in unhedged non-dollar issues and hedging may not exceed 100% of any non-dollar currency exposure. In cases where the manager has been given explicit additional flexibility, the manager has the ability to purchase currency positions for non-hedging purposes (i.e., naked currency positions). Naked currency exposures will be limited to 10% of the portfolio.

6. Fixed income securities of any one issuer shall not exceed 10% of the total bond portfolio at the time of purchase. This does not apply to issues of the US Treasury, other federal agencies or securities guaranteed by the US Government (or repurchase agreements involving such issues).

7. Holdings of any individual corporate debt issue must be 10% or less of the value of the total issue. This does not apply to issues of the US Treasury, other federal agencies or securities guaranteed by the US Government (or repurchase agreements involving such issues). Mortgage or asset-backed securities that are credit independent of the issuer shall be limited to 25% of the value of the total issue or pool.

8. The average weighted duration of the portfolio, including derivative positions (e.g., futures, options, and swaps), shall range within +/- 20% of the appropriate benchmark's duration. In cases where the manager has been given explicit additional flexibility, the allowable range for average weighted duration shall be +/- 40% of the appropriate benchmark's duration. Should the manager wish to extend duration beyond the previously stated ranges, the manager shall have the ability to ask staff for an exemption.

9. If a mortgage specialist is engaged to manage a Core Fixed Income mandate, all of the Plan's Core Fixed Income guidelines will apply with the following exceptions:

a. By their nature, a mortgage specialist will have greater exposure to securities of lower "quality" based on rating agency ratings, though many of these securities may be purchased at well below their maturity value. Such a manager will be limited to a maximum total exposure in plus sector securities, including Below Investment Grade, Not-Rated, Emerging Market Debt and Non-Dollar Bonds, of 35%. There will be no separate lower limit on High Yield, but the above individual limits on Emerging Market Debt and Non-Dollar Bonds will apply.

b. Due to the nature of mortgage securities, a portfolio of mortgage securities will typically possess an average duration that is shorter than that of the benchmark. As a result, such a manager will be given the additional flexibility to manage the portfolio's average weighted duration to within a range around the appropriate benchmark's duration of +/- 40%. (The "appropriate benchmark" for duration guideline purposes may be either the primary or secondary benchmark or a combination of the two as determined by staff with input from the Plan's investment consultant and manager.)

c. The 2% limitation on exposure to securities rated CCC/Caa or lower will not apply.

C. Alternative Fixed Income

Alternative fixed income currently consists only of bank loans. The purpose of the Alternative Fixed Income allocation is to provide further diversification and additional downside risk protection.

For purposes of determining average credit quality and compliance with ratings, if a security is rated by two rating agencies (e.g., Moody's and S&P), then the lower of the two shall apply. If a security is rated by three agencies (i.e., Moody's, S&P, and Fitch), then the middle rating shall apply. If a security is only rated by one rating agency, then the lower of the rating agency rating or the manager's internal rating shall apply. In the event of a security with no rating from a major rating agency, the manager's internal rating shall apply.

Bank Loans

1. Bank Loan strategies will invest in securities including, but not limited to:
   a. Bank Loan obligations (private or public)
   b. Publicly traded bonds
   c. Private placements (including Section 144A Private Placements/Regulation S offerings)
   d. Closed-end funds, mutual funds, and/or limited partnerships

e. Cash and/or cash equivalents (e.g., commercial paper, repurchase agreements, money market instruments, certificates of deposit, and bankers' acceptances)

2. The maximum exposure to non-US Dollar denominated investments shall be 20%.
3. The minimum level of bank loan investments shall be 75%.
4. The maximum level of below investment grade bonds shall be 25%.
5. The maximum level of Section 144A Private Placements/Regulation S offerings shall be 25%.
6. The maximum level of investments originated, placed, underwritten, structured, or managed by the Investment Manager (or affiliates) shall be 10%.
7. The maximum level invested in a single obligor shall be 5%.
8. The maximum level of issues that belong to a single industry group (as defined by the Credit Suisse Leveraged Loan Index or another mutually agreed upon and appropriate index) shall be 25%.
9. The maximum use of leverage on the net asset value of the portfolio shall not exceed 5% and may be used for the acquisition and financing of investments.
10. Derivatives such as forward currency contracts may be used to hedge the currency exposure of the non-Dollar portion of the mandate.
11. Other than in "work out" or restructuring situations for loans with companies or affiliates already represented in the portfolio, bank loan managers will not initiate equity or equity warrant positions. Because bank loans may be extended to more levered businesses, they can result in "work out" or restructuring situations. These circumstances may result in the holding of equity positions or equity warrants on a standalone basis or as part of a package of investments in the borrower. As a result, the prohibition regarding the holding of certain "equity securities . . . not traded on a national exchange . . . " (see Section IX. Prohibited Investments) does not apply to bank loan portfolios. However, the total exposure to equities and warrants will be limited to 3% unless specifically authorized by the Board.

D. Real Assets

Real Estate and Farmland

The role of real estate as an asset class is to provide a risk and return profile that falls between stocks and bonds but provides diversification benefits relative to both asset classes.

1. Investments will be made primarily through open-ended commingled fund vehicles that are well diversified by number of properties, by property type and by geography.

2. The primary focus of the real estate vehicle should be on the direct ownership of predominantly unleveraged institutional quality real estate. However, the fund may also invest in farmland and own Real Estate Investment Trusts (REITs) and real estate limited partnerships.

3. Individual properties may be leveraged, but the fund's portfolio as a whole should not be leveraged more than 33% for investments designated as "Core" funds and farmland, and not more than 60% for those investment funds designated as "Value Added" funds.

Infrastructure

Like real estate and farmland, the role of infrastructure is to provide a risk and return profile that falls between stocks and bonds but provides diversification benefits relative to both asset classes. Infrastructure is also attractive because of its strong cash-flow characteristics, downside protection and the long-lived nature of the assets which corresponds to the long-life of the Plan's obligations. The purpose of this asset class is to achieve attractive risk-adjusted returns (relative to the public equity markets) and enhance the overall diversification of the Plan's investment portfolio.

1. The primary risks associated with infrastructure investments include investment manager risk, political risk, liquidity risk and market driven risks. To help mitigate these risks the Plan will seek diversification over time across project types and major regional areas, both domestically and internationally. The infrastructure portfolio will generally accept the currency risks consistent with the geographic exposures as infrastructure managers typically do not hedge currency risk.

2. The infrastructure portfolio will primarily be invested in generally well established cash-flowing projects with developed assets and structures. In addition, the portfolio may invest in assets that are currently constructed but may require immediate capital improvements or expansion.

3. The asset class is typically accessed through private funds which are partnerships with a general partner that manages the assets and limited partners with protection against losses beyond their original investment. These partnerships may be open-ended commingled funds which live in perpetuity or, more commonly, closed-end funds with a finite life. SCERA has a preference for open-ended funds because of the greater level

of relative liquidity and generally lower fee structures. The Plan may also consider investing through a secondary offering whereby SCERA would purchase a partnership interest at a negotiated price from a current limited partner in an existing fund or through co-investments or direct investments. Last, infrastructure may be accessed through the public securities markets but these have different risk characteristics and, by themselves, may not be well diversified.

4. Due to the regulated nature of much of this asset class a higher level of leverage is considered prudent than with real estate. Individual assets may be leveraged but generally there will be little to no leverage at the fund or partnership level. SCERA has a preference for "Core" infrastructure and funds of this nature generally possess leverage at the asset level that aggregates to 50% or less at the fund level.

E. Equities

With regard to all equities (US, non-US and global) the following guidelines shall apply.

1. In keeping with the Plan's philosophy that long-term mandates be fully invested, equity manager accounts shall hold no more in cash and cash equivalents than 5% excluding those amounts held i) as a result of cash flows or ii) for the purpose of meeting future obligations of securities in the portfolio. On an exception basis the Investment Committee may grant a cash limit of up to 10%.

2. There is no minimum market capitalization for holdings of individual issues. Regarding liquidity, the managers understand SCERA may need to raise capital for Plan expenses and to rebalance, and the managers will construct their portfolios to provide the required capital within a reasonable period of time.

3. Futures and option purchases may be used as a substitute for equity securities provided that they are 100% collateralized by highly liquid, low volatility fixed income securities and generally do not represent leveraging of the assets. An exception to the leverage prohibition is the non-US equity 130/30/20 partial short-extension strategy. Equity managers will also have the authority to purchase exchange traded funds (ETFs) for the purpose of cash equitization and repositioning of the portfolio but will not be used to lever the portfolio.

4. Initial Public Offerings (IPOs) are allowed in equity portfolios but the total is limited to 5% of each manager's account at purchase. For "Partially Paid" issues the weight utilized for the purpose of this guideline

shall be the "Fully Paid" amount. This limitation no longer applies to securities once they are listed or traded on an exchange.

5. Section 144A Private Placement securities are allowed in equity portfolios but limited to a total of 5% of each manager's account at market. In addition, for readily marketable Over-The-Counter (OTC) securities the Investment Committee may grant the authority to hold up to 5% at purchase. This OTC authority will be granted only on an exception basis. Should market movement cause a manager's portfolio to be out of compliance with this guideline, the manager is expected to be in compliance within a reasonable period of time.

6. Preferred and convertible preferred stocks may be held. Publicly traded Real Estate Investment Trust (REIT) shares may be held and are considered part of the allocation to stocks.

7. No more than 5% or the benchmark weight plus 2.5%, whichever is higher, of any one manager's portfolio shall be invested in the securities of any one issuing corporation at market. Should market movement cause a manager's portfolio to be out of compliance with this guideline, the manager is expected to be in compliance within five business days.

8. Investments in any corporation should not exceed 10% of the outstanding shares of the corporation.

9. Assets in each managed account not invested in equity securities shall be kept invested in appropriate money market instruments by the principal custodian bank, the prime broker or the treasurer.

10. With regard to partial short extension strategies, where the manager has specific authority to effect short equity positions, the investment manager shall hold a portfolio of diverse long positions that comply with the above guidelines regarding position limits. The investment manager shall also hold a portfolio of diverse short positions such that at the time of short sale, no security position will exceed 1% of net assets in the account. Should the market value of an individual short position exceed 2% of net assets, the investment manager is expected, within 5 business days, to reduce the position to 2% or less of net assets in the account.

F. U.S. Equities

In the discretion of the equity managers, they may invest solely in equity securities as defined, subject to the following:

1. Investments shall be diversified with the intent to minimize the risk of large losses to the Fund. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations, or industries.

2. Sector concentration will be limited as follows:

   a. Business sectors representing less than 10% of the benchmark index will be limited to a maximum net exposure of 25% of the individual portfolio weighting.
   b. Business sectors representing 10% to 20% of the benchmark index will be limited to a maximum net exposure of 30% of the individual portfolio weighting.
   c. Business sectors representing 20% to 30% of the benchmark index will be limited to a maximum net exposure of 40% of the individual portfolio weighting.
   d. Business sectors representing over 30% of the benchmark index will be limited to a maximum net exposure of 10% over the benchmark index weighting.

3. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on major exchanges. US Equity holdings may include American Depository Receipts and equity securities of foreign companies traded on regulated US exchanges, up to 25% of any one manager's portfolio.

4. For the purposes of this policy, small cap stock portfolios are defined as those stocks that fall at the lower end of the capitalization range as determined by the vendor of the relevant market benchmark (see the US Small Cap benchmark in Supplement A: Performance Measurement Standards).

G. Non-US and Global Equities

1. Diversification

It is expected that non-US investments will be spread broadly around the world. It is anticipated that the manager will invest in at least ten different countries. The non-US equity portfolio is expected to be invested primarily in countries which make up the Morgan Stanley Capital International (MSCI) All Country World ex-US Investable Market Index (ACWI ex-US IMI). Each manager will be limited to a maximum exposure in emerging markets of two times the benchmark weight. In addition, each manager should not invest more than 25% of its assets in the securities of companies in the same industry or invest more than 10% of its assets in any single issuer at the time of purchase nor hold more than 10% of any issuer's voting securities. Investments should not be made to exercise control. Each manager should not invest more than 10% of its assets in securities that are not readily marketable.

The global equity portfolio is expected to be invested primarily in countries which make up the Morgan Stanley Capital International (MSCI) All Country World Investable Market Index (ACWI IMI). For global equity managers, the percentage of US and non-US equities should each be within a range of +/- 25% around their respective benchmark weights. It is understood that the guidelines with the manager may express these ranges in specific percentages. In this case, the percentage ranges should be consistent with the +/-25% range around the benchmark weight at the time they are established and updated when the benchmark weights for US and non-US equities change materially. For global equity managers, the maximum allowed allocation to emerging markets will be two times the benchmark weight.

2. Currency Hedging

It is preferred that currency exposures be un-hedged but may periodically be up to 100% hedged for a specific country or up to 30% of the total portfolio at the manager's discretion. Such transactions should not be speculative in nature and should not exceed the value of underlying securities holdings. If a manager is to hedge its currency exposure, it is expected that the manager will use forward currency contracts, currency futures and stock index futures contracts as well as related options and transactions. The fund should not use naked currency positions.

3. Guidelines for Manager(s) Granted Asset Allocation Flexibility

Those global equity managers granted additional asset allocation flexibility will adhere to the following:

a. Purchase of instruments that can be converted into equity (except for convertible preferred stocks) is prohibited.
b. The purchase of ETFs, currency swaps, forward currency contracts, and currency futures is allowed.
c. The purchase of options on stock indices, listed stocks, and currencies is allowed.
d. A maximum of 10% non-equity exposure (inclusive of cash).
e. A maximum 5% exposure to a single ETF.

f. A maximum 25% weight to ETFs, derivative products, and convertible preferred stocks combined.
g. Individual currency exposure is limited to +/- 15% relative to the currency's weight in the benchmark. This supersedes the naked currency prohibition provided above.
h. Total emerging market currency exposure is limited to +/- 15% relative to the total emerging market benchmark weight. This guideline is exclusive of the euro which may be utilized by some emerging market countries.

H. Cash Overlay

The purpose of the cash overlay program is to securitize the Plan's physical cash so a cash balance can be maintained while the economic exposure of the cash balance is virtually eliminated and is consistent with the Plan's policy target allocation for cash of zero.

1. The cash overlay program will "securitize" the cash with the use of equity and Treasury futures and may use currency futures or forward contracts to reduce the tracking error of the non-US equity exposure versus the non-US equity benchmark. The program may be implemented either by internal staff utilizing outsourced trading or by a specialist overlay manager.

2. A certain minimum level of actual cash is maintained to provide liquidity for necessary monthly cash outflows and to provide liquidity during times of market dislocations or when there are large bid-ask spreads in the markets for physical securities (equities and fixed income). The approximate minimum level of cash is one percent of Plan assets, but the cash level may drop below this from time-to-time at the discretion of staff and with input from the Plan's consultant.

3. Staff, with input from the Plan's consultant, works to limit physical cash to minimize the effect of the absence of active management with the overlay program and the "basis risk" resulting from the imperfect match between the futures used and the relevant asset class benchmark. Physical cash levels may be elevated at times when providing liquidity for the medium-term needs of the Plan, such as for funding retiree payroll and new investment mandates. Basis risk is more significant in non-US equities and fixed income where the most efficient contracts to utilize are less closely matched to the asset class benchmarks. For example, in fixed income a basket of US Treasury futures will be used which will match the duration of the benchmark but lack the benchmark's exposure to mortgages, credit and asset- backed securities.

4. The overlay program will not be used to lever the Plan. The overlay will be limited to and approximately equal to the size of the Plan's cash balance, including Plan-level cash and cash held in the accounts of certain managers. Managers may be excluded from the overlay program at the discretion of staff, with input from the Plan's consultant, if the manager uses cash intentionally (e.g., duration management by fixed income managers or tactically by a balanced manager) or the manager securitizes their own cash. In addition, because the overlay will be using unaudited daily custodial valuations, staff, with input from the Plan's consultant, may exclude a portion of the cash from the overlay program. If a cash flow occurs to or from the Plan's cash balance of a size deemed by the overlay manager to be of significant size, then an approximately equal amount of futures contracts will be put-on or taken-off to keep the total Plan cash balance approximately fully securitized, and contracts selected will be such that the Plan's asset allocation will be moved toward its policy targets. When determining the need to effect an overlay transaction, the overlay manager will take into account several factors including, but not limited to, transaction costs, current cash balance, upcoming cash flows, and notional size of futures contracts utilized.

5. The cash overlay program is authorized to use both "long" and "short" futures positions to manage asset class exposures when adjusting for cash inflows and outflows as well as when a rebalancing is triggered.

I. Opportunistic Allocation

The purpose of the Opportunistic Allocation is to enhance the risk and return characteristics of the Total Fund by employing strategies that do not easily fit into the major traditional asset classes. The employed strategies may be return enhancers, risk reducers or a combination of both.

1. The Opportunistic Allocation is not for speculative activities and is intended to be utilized for significant investment opportunities that are created by market dislocations or for new strategies that are compelling but may not have enough history to allow for the development of robust return, risk and correlation assumptions. The Opportunistic Allocation is to be used only for significantly compelling opportunities, and in the absence of such opportunities the actual allocation to Opportunistic will be zero.

2. A fully implemented Opportunistic Allocation will have a risk level that is not materially greater than that of the Total Fund.

3. All investments in this asset class are to be approved by the Investment Committee. The Opportunistic Allocation may include a variety of investments that do not fit within the other asset classes. Some of these investments are truly opportunistic in the sense that they may be available for investment only during certain market environments or dislocations and will therefore, be shorter-term in nature. This asset class may also include longer-term strategies that will play a strategic long-term role in the performance of the Total Fund. The latter types of strategies may be referred to as "incubator" opportunities and will be considered, over time, for graduation out of the Opportunistic Allocation.

4. The primary benchmark for this asset class will be either an equity or fixed income benchmark or a blend of the two depending on the source of funding for the actual allocation. Illiquid asset classes, such as Real Estate, are not expected to be a source of funding. A secondary benchmark for this asset class will be the "opportunity" cost of capital defined as the Total Fund Policy Index return (less the Opportunistic Allocation) or the actuarial assumed rate-of-return or specified benchmark that reflects the unique characteristics of the investment.

5. The Investment Committee will periodically revisit the appropriateness of the mix of investments and their corresponding weights within the Opportunistic Allocation. It is generally expected that new strategies would be reviewed and their future disposition considered in three to five years. For strategies capitalizing on market dislocations, staff and the Investment Consultant would question whether the opportunity has been captured and the window of opportunity closed. Strategies considered "incubator" investments would be considered for graduation out of the Opportunistic Allocation and into the long-term strategic allocation. In addition, staff and Investment Consultant will monitor the strategies included in the asset class and make recommendations for termination when appropriate. Staff and Investment Consultant recommendations will be based on a variety of factors including future risk and return prospects of the investment; stability of the investment management team and/or changes in the investment approach; appropriateness of other strategies; and other relevant factors.

6. To allow SCERA to capitalize on opportunities that may have a small window-of-opportunity, such as "dislocation" opportunities, SCERA Staff, with input from the Plan's investment consultant and the Investment Committee Chair or, if unavailable, the Committee Vice Chair, is authorized to expend:

a. up to two project allocations included in the Plan's investment consultant retainer relationship and/or
b. funds up to one quarter of one basis point (0.0025%) of the Plan's current market value for due diligence research.

IX. PROHIBITED INVESTMENTS

SCERA funds will not be invested in commodities, venture capital funds, natural resource properties, crypto currencies, or equity securities not traded on a national exchange or the NASDAQ National Market, except as specifically approved by the Board or expressly authorized herein. Margin transactions, or any leveraged investments are strictly prohibited, except where the investment manager has been given specific authority. As it pertains to equity extension strategies, the combined absolute value of long and short positions should not exceed approximately 160% of capital, with a net market exposure approximating 100% of capital. Furthermore, in these instances long positions shall compose approximately 130% of the account's net assets and short positions shall compose approximately 30% of the account's net assets.

In some cases, where SCERA gives explicit permission, the manager may be allowed to use leverage to manage their beta exposure. In such cases, the combined absolute value of equity and equity index future long and short positions should generally not exceed approximately 180% of capital except over short intervals. The strategies should have a net market beta approximating 100% of the benchmark market beta on average over long periods of time. (Beta is a measure of a portfolio's risk in relation to the market.) Furthermore, generally in these instances, long equity positions shall compose approximately 130% of the account's net assets and short equity positions shall compose approximately 30% of the account's net assets with net equity index futures approximating up to 20% of the account's net assets.

X. DERIVATIVES

A. Exposure to derivatives must be consistent with the overall investment guidelines.

B. The use of long and short futures, option purchases, swaps, and currency futures are permitted. However, generally these instruments will not be used to lever total Plan assets. There may be exceptions such as the partial short-extension strategy described above. In addition, managers do not have the authority to write options unless specifically authorized. Mortgage derivatives with significant options characteristics shall not exceed 5% of the portfolio and should be offset by other mortgage derivatives (e.g. Interest Only bonds matched with Principal Only bonds, Floaters matched with Inverse Floaters, etc.) or other similar portfolio positions.

C. Futures and options should be used primarily:

1. For defensive currency strategies of non-dollar portfolio holdings.
2. For controlling the duration of fixed income portfolios.
3. For managing yield curve strategies of fixed income portfolios.
4. For control of equity or fixed income exposure during portfolio transitions to overlay cash positions.
5. In cases where the manager has been given explicit flexibility, the purchase of put options may be used to provide downside protection.
6. In cases where the manager has been given explicit flexibility, the purchase of call options may be paired with a straight debt instrument to create a convertible-like risk/reward profile (i.e. a synthetic convertible).
7. In cases where the manager has been given explicit flexibility, the writing of options may be used to provide downside protection.
8. For the "Cash Overlay" program as described above.

The use of futures and options for speculative purposes is prohibited. To this end, the use of futures and options shall be matched by cash, cash equivalent securities, current portfolio holdings or other matching options or futures positions. All short futures positions shall be matched by equivalent long security positions.

D. Bank loans, convertible securities, preferred stocks, repurchase agreements, collateralized debt obligations, structured notes and similar securitized debt securities are permitted investments.

E. No investment will be made in any newly developed instrument without the explicit consent of the Board.

F. On an exception basis (as determined by staff and Investment Consultant), the Opportunistic Allocation may employ strategies that hold instruments not specifically outlined in the Derivatives Policy.

XI. CASH ALLOCATION

The Retirement CEO is given authority to invest all short-term cash in the approved investment options and report at the next Investment Committee meeting.

XII. AUTHORITY OF INVESTMENT MANAGER IN THE MANAGED ACCOUNTS

A. Subject to the terms and conditions of this statement or the governing documents of a commingled vehicle, if applicable, managers shall have full discretionary power to direct the investment, exchange, liquidation, and reinvestment of the assets of the managed accounts. The Committee expects that the investment manager will recommend changes to this Investment Policy Statement at any time when the manager views any part of this statement to be at variance with overall market and economic conditions.

B. The managers shall place orders to buy and sell securities and, by notice to the custodian bank or prime broker, shall cause said custodian or prime broker to deliver and receive securities on behalf of the trust.

XIII. PROXY VOTING

A. SCERA owns equities in its investment portfolio and along with equity ownership comes the legal requirement to vote the proxies (in accordance with Government Code Section 7451). The Retirement Board believes that proxy voting also includes a significant fiduciary responsibility to its constituents. SCERA's Board delegates the voting of all proxies to its equity managers as proxy voting is considered part of the investment management process. Each equity manager must establish a proxy voting policy or set of guidelines and vote all proxy ballots, if practicable, in conformance with said policy or guidelines. The manager's responsibility is to vote them in a manner that preserves and enhances shareholder value.

B. The following procedures will be adhered to.

1. Equity managers shall:

    a. Collect all incoming proxies and verify shares held in account;

    b. Ensure that all proxies to be received are in fact received, voted and returned to the corporation if, in the manager's opinion, it is in the Plan's best interest;

    c. Vote on all matters in conformance with the applicable policy and guidelines and maintain adequate records of proxies voted;

    d. Report annually, with periods ending June 30th, on proxies voted. Reports should show corporation name; identify each proxy issue; indicate how voted; and show the number of shares. The managers will also report annually on any deviations from their proxy voting policy.

2. Investment staff shall:

    a. Review the proxy voting policies and guidelines utilized by SCERA's managers for reasonableness and summarize said guidelines for the

Investment Committee or Retirement Board annually, highlighting changes;

b. Review the managers' annual reports on proxies voted to ascertain compliance with proxy voting guidelines and resolve questionable issues with the managers;

c. Review significant issues relating to the voting of proxies with the Investment Committee on an as-needed basis.

C. In addition to the above requirements California Government Corporation Code Section 711 requires that records of how proxies are voted be maintained for twelve months from the effective date of the vote.

XIV. REQUIRED REPORTING, MANAGER COMMUNICATION AND DOCUMENT RETENTION

A. The Committee will meet periodically with the Investment Managers to review the following:

1. The manager's investment outlook as it relates to the financial markets;

2. Current composition and future investment strategy for SCERA's investment portfolios;

3. The investment manager will be expected to keep the Committee informed on a timely basis of major changes in its investment outlook, investment strategy and other matters affecting its investment policies or philosophy;

4. The Committee requires that they be informed on a timely basis of any significant changes in ownership, organizational structure, financial condition, or senior personnel staffing of the investment management firm;

5. Whenever the investment manager believes that any particular guidelines should be altered or deleted, it will be the investment manager's responsibility to initiate written communications with the Committee expressing its views and recommendations.

6. Quarterly reports from the Investment Managers which should contain as a minimum (unless otherwise specified in the governing documents of a commingled vehicle):

a. A compliance statement outlining key policy guidelines and risk controls and an affirmation of compliance.

b. Asset holdings at market value and as a percentage of the total portfolio, a listing of all purchases and sales and gains and losses.

c. Performance on a quarterly and cumulative basis from inception against relevant benchmarks.

d. Key portfolio characteristics such as P/E, P/B, earnings growth, etc., for equity portfolios; weighted average coupon, duration, weighted average credit quality, sector allocations, etc., for fixed income portfolios; property operating information, geographic and property type distribution, etc., for real asset portfolios.

e. A list of all trades and brokers used and the percentage of directed trades at least annually. A list of all property transactions for real asset managers.

f. A statement confirming that all proxies were voted and votes were in accordance with SCERA's Proxy Voting Guidelines at least annually.

B. All Investment Committee meeting materials, agendas and minutes shall be preserved in original form or in a non-alterable trusted system of electronically stored information as part of the permanent record of the Board. Working files to support Investment Committee meeting materials may also be part of the permanent record of the Board. Manager statements for accounts where since-inception returns are particularly important will be kept through at least the duration of the manager relationship plus 5 (five) years. Such accounts include Real Assets and all accounts in which a performance fee is based on a since-inception return or IRR (Internal Rate of Return) calculation. Other Investment staff working files will generally be retained for 5 (five) years at the Chief Investment Officer's discretion.

XV. CONTROL PROCEDURES

A. Review of Investment Objectives

All major liability assumptions are the subject of a triennial review by the Board. This review focuses on SCERA's assumptions as compared to actual experience for a three-year lookback period. In addition, the estimate of the liability, and the required contribution to fund the liability, is evaluated annually.

Investment objectives are reviewed formally with the triennial Asset-Liability (A-L) study which works to adequately fund future liabilities by optimizing the Plan's asset mix, maximizing the return for the level of risk determined to be appropriate by the Retirement Board. The continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives is more informally reviewed in the interim through discussions with managers and the Plan's consultant and when reviewing quarterly and annual performance.

It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the investment policy.

B. Review of Investment Managers

The Committee will review total SCERA and individual manager's performance quarterly with its consultant. The Committee will typically meet with each investment manager and the Plan's custodian every two years to review the goals, objectives, guidelines, and performance, including total rate of return of their portfolio(s). In special circumstances (i.e. poor performance, material change in personnel, etc.), more frequent meetings may be scheduled. Any recommendations by the Investment Manager as to changes in the investment guidelines should be submitted to the Board in writing.

The Board encourages the Investment Managers to have open communication with them and the Committee on all significant matters pertaining to investment policies and the management of SCERA's assets.

Performance reviews will focus on:

1. Comparison of managers' results to benchmarks and peer universes with similar investment characteristics (as set out in Supplement A);
2. The opportunities available in equity, real assets, and debt markets appropriate for monitoring individual portfolio investment strategies;
3. Total Fund and Investment Manager Adherence to the Investment Policy Statements;
4. Material changes in the manager organizations, such as in investment philosophy, personnel, acquisitions or losses of major accounts, etc.

C. Service Provider Due Diligence

Staff and/or Consultant shall conduct an on-site due diligence visit to the offices of each manager prior to funding new managers and no less than once every three years. Due diligence will also be performed on other service providers including the custodian, prime broker, investment consultant and potentially "bull pen" or backup managers. (Bull pen managers are those that have been selected and are available for assignment if an existing SCERA manager is terminated.) Staff and/or Consultant shall prepare a written and verbal report of the findings of each visit and submit such findings to the Investment Committee in a timely manner.

Due diligence visits, and the resulting reports, will focus on compliance issues of the firm with regulatory agencies, SCERA investment guidelines, the quality and stability of staff, the firm's business plans, the quality and stability of the investment process and business continuity/disaster recovery planning. Additionally, the meeting should cover the firm's operational processes as well as internal control processes to ensure an adequate degree of control over SCERA fund assets is in place. The visit will generally be conducted by SCERA investment staff but may be conducted by the Investment Consultant. If conducted by staff and the manager is on "Watch", the Investment Consultant will accompany staff if requested by SCERA. On-site due diligence of the Investment Consultant will be conducted by SCERA investment staff every one to two years. SCERA CEO and Trustees may elect to participate in any of the on-site visits.

While due diligence visits conducted by staff include operational topics, there is a recognized need for a more thorough operational due diligence (ODD) review of investment managers because they have discretion over SCERA assets. A thorough ODD review of managers will be conducted prior to engagement and periodically. These ODD reviews may be conducted or assisted by a designated consultant of the Plan with the requisite forensic due diligence skills. An ODD review will be undertaken upon determination by SCERA investment staff and/or Investment Consultant that an ODD review is warranted for the manager. Notwithstanding the above, an on-site ODD review of each SCERA investment manager will be conducted at least once every five years.

D. Manager "Watch" Status

A manager may be placed on "Watch" status for:

1. failure to meet one or more of the standards, objectives, goals, or risk controls as set forth in this policy statement,
2. violation of ethical, legal, or regulatory standards,
3. material changes in the ownership of the firm or personnel changes,
4. failure to meet reporting or disclosure requirements,
5. failure to meet performance objectives or goals,
6. any actual or potentially adverse information, trends, or developments that the Investment Committee or Board feels might impair the managers ability to perform currently or in the future.

The Investment Committee or Board may take action to place a manager on Watch status. Managers placed on Watch status shall be notified in writing, including the reason for the action and the required remediation. Watch status is an optional interim step that may be used to formally communicate dissatisfaction to the investment manager and the potential for termination. Watch status is not a required step in terminating a manager. Watch status will normally be for a period of six months, but the time frame may be determined by action of the Investment Committee or Board at the time a manager is placed on Watch status. The Investment Committee or Board retains the right to terminate the manager at any time, extend the period of the Watch status, or remove the manager from Watch status at any time.

Watch status indicates that the manager shall be subject to increased monitoring for policy compliance, focusing on the remediation of the factors that caused the manager to be placed on Watch status. The manager on Watch status shall become a regular reporting item on the Investment Committee agenda, and staff or Consultant shall report on the progress of the manager in the remediation of the dissatisfaction at each meeting. No additional funds shall be allocated to a manager from rebalancing, contributions or other sources, while they are on Watch status; however funds may be withdrawn for rebalancing or other cash needs.

XVI. PERFORMANCE EXPECTATIONS

A. The most important performance expectation of the fund is the achievement of long-term investment results that are consistent with SCERA's Investment Policy Statement. Implementation of the policy will be directed toward achieving a return in excess of the actuarial assumption for return on assets while maintaining the Board's adopted risk profile.

In order to ensure that investment opportunities available over a specific time period are fairly evaluated, the Board will use comparative performance statistics to evaluate investment results. Each active Investment Manager and total SCERA invested assets will be expected to achieve minimum performance standards as follows:

1. Rank in the top 40% of an appropriate peer group of actively managed portfolios;

2. Exceed an appropriate benchmark, net of management fees.

Appropriate benchmarks may be either an index representing the opportunity set of securities available to the manager (e.g., Russell 3000 Index for a broad US equity manager) or a universe of peers investing with similar mandates (e.g., the NFI-ODCE for core real estate managers). In addition, it is understood that some asset classes, such as Infrastructure, have not evolved to the point where robust peer groups exist or comprehensive indices are readily available. As a result, less representative evaluation criteria, such as absolute benchmarks (e.g., CPI + 5% / year for Infrastructure), are currently utilized though they are known to be of more limited value in judging relative performance.

While these performance standards should be achieved over a complete market cycle, the Board will also monitor performance over rolling three- and five-year periods. It is recognized that for some strategies, such as active asset allocation, the relevant cycle(s) may be many years in length.

XVII. SECURITIES LENDING PROGRAM

A security lending program may be implemented by the Master Custodian or an alternative lending agent as selected by the Board in the belief that it will provide additional income without incurring material additional risk. Important features to minimize risk include indemnification (typically provided by the lending agent) for non-performance by the borrower and the collection of collateral which is marked to market daily. There may also be guidelines to manage risk which will be determined by SCERA's investment staff, with input from the Consultant, and communicated to the Board.

For all securities lent, high quality liquid financial assets will be held as collateral, providing a positive margin to each loan executed. In the case of lending US equity securities, US corporate debt securities, non-US corporate debt securities, US government securities and non-US sovereign debt securities collateral will be initiated with a Market Value (MV) of not less than 102% of the MV of the loaned securities. In the case of lending non-US equity securities, collateral will be initiated with a MV of 105% of the MV of the loaned securities. The MV of the collateral and lent securities will be marked to market daily. For any kind of security lent, the ratio of the collateral and lent securities will not be allowed to remain below 100% for more than one business day before the lending agent issues a recall for the return of the lent securities.

Acceptable collateral includes cash, convertible bonds, securities issued by the US Government or its agencies, sovereign debt and other securities issued and backed by foreign governments which are members of the OECD G10 or possess a credit rating of A+ or better, irrevocable letters of credit, and A1 or P1 rated Commercial Paper. Equity securities (including ETFs, ADRs and GDRs) may also be accepted as collateral but require initially a MV of 106% of the MV of the loaned securities. The collateral pool for cash collateral and the acceptability of new forms of collateral, as they come up, will be determined by SCERA's investment staff, with input from the Consultant, and communicated to the Board.

XVIII. REVIEW

In addition to any other reviews or revisions, beginning February 2019, the Board shall conduct a comprehensive review of this policy at least triennially.

XIX. HISTORY

The Board adopted this policy on 3/19/1992. Since its adoption in 1992 this policy has been reviewed and revised many times. In February of 2019 the Board decided to conduct future comprehensive triennial reviews of this policy in addition to periodic revisions necessitated by circumstances. Since the decision in February of 2019, this policy has been reviewed and revised on 2/21/2019, 8/15/2019, 9/19/2019, 2/27/2020, 5/28/2020, 11/19/2020, 01/28/2021, 07/29/2021, 09/30/2022, 07/27/2023, and 09/28/2023.

Triennial reviews conducted: 11/19/2020 and 07/27/2023.

The Proxy Voting Policy was originally adopted on 04/18/1991, was reviewed on 10/15/2009, 8/18/2011 and 6/16/2021 and was then subsumed into this Investment Policy Statement on 07/27/2023.

SUPPLEMENT A: PERFORMANCE BENCHMARKS

Asset Class	Peer Universe	Benchmark
Overall Fund	Similarly Sized Public Funds (>$1 billion in assets)	1. Actuarial Assumption (net-of-fees) 2. Blended Policy Benchmark reflecting policy weights & benchmarks for major asset classes
US Large Capitalization	US Large Cap Equity Universe	Russell 1000 Index
Broad Mandate & Total US Equities	US All Cap Equity Universe	**Russell 3000 Index***
US Small Capitalization	US Small Cap Equity Universe	Russell 2000 Index
Non-US Equities	Non-US Equity Fund Universe	**MSCI All Country World ex-US Investable Market Index ($US basis)***
Global Equities	Global Equity Universe	**MSCI All Country World Investable Market Index with USA (Gross)***
Total Equities	Not Applicable	Pro Rata Blend of Major Asset Class Benchmarks
Core Fixed Income & Total Fixed Income	Bond Fund Universe	**Bloomberg US Aggregate Bond Index*** Mortgage Specialist Secondary Benchmark: Bloomberg US Mortgage Backed Securities Index
Bank Loans	Bank Loan Universe (if available)	CS Leveraged Loan Index
Core Real Estate	Core Unleveraged Real Estate Universe	**NCREIF Fund Index-Open End Diversified Core Equity (NFI-ODCE)***
Farmland	Unlevered Farmland Universe	UBS Core Farmland Index (80% Annual / 20% Permanent Crop Leased Farmland) **NCREIF Farmland Index***
Infrastructure	Not Applicable	Primary: **CPI + 5%/Year*** (Net-of-Fees) Secondary: Blended Benchmark Reflecting Source of Funding from Global Equity and Fixed Income
Total Real Assets	Not Applicable	Pro Rata Blend of Sub Asset Class Benchmarks
Opportunistic Allocation	Not Applicable	• Total Fund Policy Index, • Actuarial Assumed ROR, • Blended benchmark reflecting the source of funds from other asset classes or • Specific benchmark reflecting the unique characteristics of the investment

* The Target Policy Benchmark for the Plan is composed of the above asset class benchmarks in bold and marked with an asterisk, weighted by the policy target weights found in section VI, titled "Asset Allocation Targets and Ranges."