

INVESTMENT POLICY

SAN LUIS OBISPO COUNTY
PENSION TRUST

BOARD OF TRUSTEES



Adopted March 27, 2000
By the
SAN LUIS OBISPO COUNTY
PENSION TRUST

BOARD OF TRUSTEES

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I. GENERAL OBJECTIVES AND GUIDELINES

The San Luis Obispo County Pension Trust Board of Trustees, pursuant to applicable County, State and Federal laws and regulations and in keeping with its fiduciary responsibilities, has established this Investment Policy to govern the investment and reinvestment of the assets of the Pension Trust. This Investment Policy sets forth the investment philosophy, goals, objectives, policies and procedures of the San Luis Obispo County Pension Trust.

In formulating this Investment Policy, the Board of Trustees has followed the provisions of Article XVI, Section 17 of the California State Constitution which are set forth in pertinent part below:

- 1.) Notwithstanding any other provision of law or of the California Constitution to the contrary, the Board of Trustees shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the Pension Trust.
- 2.) The Board of Trustees shall have the sole and exclusive fiduciary responsibility over the assets of the Pension Trust.
- 3.) The Board of Trustees shall have the sole and exclusive responsibility to administer the Pension Trust in a manner that will assure the prompt delivery of benefits and related services to the participants and their beneficiaries.
- 4.) The assets of the Pension Trust are trust funds and shall be held for the exclusive purpose of providing benefits to participants in the Pension Trust and their beneficiaries and defraying the reasonable expenses of administering the Pension Trust.
- 5.) That each member of the Board of Trustees shall discharge his or her duty with respect to the Pension Trust solely in the interest of, and for the exclusive purposes of:
 - (a) providing benefits to participants and their beneficiaries
 - (b) minimizing employer contributions to the Pension Trust
 - (c) defraying the reasonable expenses of administering the Pension Trust.
- 6.) The Board of Trustees' duty to its participants and beneficiaries shall take precedence

over any other duty.

- 7.) Each member of the Board of Trustees shall discharge his or her duty with respect to the Pension Trust with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

II. INVESTMENT PHILOSOPHY

The Mission of the of the San Luis Obispo County Pension Trust is to adequately fund and promptly pay the benefits accrued by Employees of San Luis Obispo County pursuant to the provisions of the San Luis Obispo County Employees Retirement Plan. To that end, the Board of Trustees has adopted an investment philosophy that seeks to preserve the financial and actuarial soundness of the Pension Trust, maintain actuarial assumptions that are consistent with the long term nature of the benefit commitments of the Pension Trust and implement the long term investment strategies and contributions that are required to meet those benefit commitments. A key component of this investment philosophy is to achieve the long term funding objectives of the Board of Trustees while minimizing, to the extent that it is prudent to do so, short term fluctuations in funding and required contributions that result from deviations from investment performance and actuarial experience.

III. RESPONSIBILITIES AND DELEGATION OF AUTHORITY

Responsibilities of the Board of Trustees

In keeping with the provisions of California State Constitution, the Board of Trustees shall have the following responsibilities under this policy:

1. Establish Policy and Policy Guidelines

The Board of Trustees shall establish all investment objectives and policies related to the investment of Trust funds. The Board shall develop and approve guidelines for the execution of the Pension Trust's investment policies. The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed.

2. Delegation of Specific Authority to Qualified Investment Personnel or Providers

The Board may retain investment consultants to provide such services as conducting investment performance review and analysis, asset allocation studies and recommendations, investment manager searches and ongoing investment manager reviews and investment research. The Board shall be responsible for selecting a qualified Investment Consultant with the assistance and recommendation of the Executive Secretary and Investment Officer. The Board shall be responsible for selecting a qualified custodian with advice from the Executive Secretary, Investment Officer, and the Investment Consultant. The Board, in its sole discretion, may delegate to the Executive Secretary, Investment Officer, and to external, qualified investment management organizations, the authority and responsibility for buying and selling assets in accordance with the Board of Trustees' guidelines.

The investment authority vested in the Board shall not be delegated to any committees of the Board, except by formal resolution. Such resolutions shall specify the limits of the authority delegated and require that all actions be reported to the Board of Trustees.

3. Establish the Strategic Asset Allocation

A formal review of the Trust's strategic asset allocation will be conducted bi-ennially or more frequently as determined by the Board of Trustees. The review will include consideration of adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions and the Trust's financial condition. In addition, the Board shall review the allocation of assets to each investment manager as part of the Board's asset allocation review.

Based on this review and in conjunction with the Executive Secretary and the Investment Consultant, the Board shall develop a Strategic Asset Allocation, which shall be incorporated into this policy. The Trustees will not authorize investment of Trust funds in any investment which is not contemplated in the Strategic Asset Allocation. The Strategic Asset Allocation may be amended at any meeting of the Board of Trustees, but only after considering the written recommendations of the Executive Secretary, the Investment Officer or the Investment Consultant, which recommendations shall be promptly

submitted upon request of the Trustees.

4. Monitor Compliance and Adherence to This Policy

The Board of Trustees shall review the Trust's investments quarterly, or more often as needed, to monitor compliance with this Investment Policy. This review shall be reported on at Regular Meetings of the Board of Trustees. This review shall include a review of current economic and market conditions, current investment holdings, and a comparison of actual asset allocation to the Board's target asset allocation. The source of information for these reviews shall come from the Executive Secretary, Investment Consultant, the financial custodian and the Trust's investment managers.

Responsibilities of the Executive Secretary

The Executive Secretary shall have the following responsibilities under this policy:

1.) Management and Supervision of the investment activities of the Pension Trust

The Executive Secretary shall collaborate with the Investment Consultant, supervise and oversee all activities of the Pension Trust Investment Officer, monitor the activities of external investment managers and ensure that all investment activities are in compliance with this Investment Policy.

2.) Management and Supervision of the Investment Officer

The Executive Secretary shall manage and supervise the activities of the Investment Officer.

3.) Respond to Information Requests from the Board of Trustees

The Executive Secretary shall fulfill all information requests of the Board of Trustees and shall supply the Board with adequate information to allow it to fulfill its fiduciary responsibilities.

4.) Maintenance of Due Diligence of Custodian and External Managers

As part of the normal due diligence process, the Executive Secretary shall coordinate with the Investment Officer to conduct on site due diligence visits of the Master Custodian, Investment Managers, and the Investment Consultant, as appropriate.

5.) Act as Executive Staff to Board Committees

The Executive Secretary shall act as staff to the following Ad Hoc or Standing Committees of the Board of Trustees

- 1.) The Investment Committee (ad hoc committee as needed)
- 2.) The Audit Committee (standing committee)

6.) Adherence to and Implementation of this Policy

It is not the intention of the Board to become involved in day-to-day investment decisions. Therefore, the Executive Secretary will be responsible for the timely implementation and administration of this policy.

Responsibilities of the Executive Secretary and Investment Officer Under This Policy

The Executive Secretary may appoint an Investment Officer of the Pension Trust, subject to confirmation by the Board of Trustees. The Investment Officer shall be an employee of the Pension Trust. The Investment Officer, under the supervision of the Executive Secretary, shall execute his or her responsibilities in accordance with the provisions of the State Constitution set forth above and as contained in Article 17: Method of Funding of the Retirement Plan. **The Executive Secretary may delegate duties under this policy to appropriate staff as he or she deems necessary and shall exercise appropriate oversight as required.**

The Executive Secretary and the Investment Officer shall have the following responsibilities under this policy:

1.) Internal Portfolio Management

Under the Supervision of the Executive Secretary, the Investment Officer is

responsible for the management of any internally managed Pension Trust assets, (e.g., fixed income portfolio, the direct real estate equity investments (properties), and the private real estate loans) if applicable.

2.) Ensure Policy Compliance, Identify Areas for Review and Revision.

The Executive Secretary and the Investment Officer will be expected to know and comply with this Investment Policy. It is the Executive Secretary's and Investment Officer's responsibility to identify policies that may have an adverse impact on performance, and to initiate discussion with the Investment Consultant and the Board of Trustees toward improvement of said policies through Board action. The Executive Secretary, Investment Officer and the Investment Consultant shall be responsible for organizing and/or participating in any special research required to manage the Trust assets more effectively and to respond to any questions raised by Board members.

3.) Implement Asset Allocation Decisions of the Board of Trustees

The Executive Secretary and the Investment Officer shall, within 30 days following a Board approved change to the Strategic Asset Allocation, issue detailed letters of instruction to the staff of the Pension Trust, investment managers, and the Investment Consultant, setting forth the principles and procedures for implementing the investment policies and allocations set by the Board.

4.) Maintenance of Due Diligence of Custodian and External Managers

As part of the normal due diligence process, the Executive Secretary and/or the Investment Officer shall conduct on site due diligence visits of the Master Custodian, Investment Managers, and the Investment Consultant, as appropriate.

5.) Report Monthly Portfolio Status to the Board of Trustees

The Executive Secretary and the Investment Officer working with the Investment Consultant shall, in monthly reports to the Board, comment on the comparison of overall asset allocation policy with actual portfolio status. The reports shall state

the existence of, and reasons for, any excessive deviations that arise between the policy and portfolio status. Additionally, the report shall state what action has been taken or should be taken to rebalance the portfolio.

6.) Execution of Investment Transactions for Internally Managed Portfolios.

For purposes of internally managed investment portfolios, the Executive Secretary and the Investment Officer shall have authority under this Investment Policy to determine which securities broker/dealers shall execute transactions. The Executive Secretary and the Investment Officer shall make their determination based on his or her review of the capability of the broker/dealer to assist with the implementation of the standard investment activities required by institutional investors. The Executive Secretary and/or the Investment Officer must obtain the best available prices and most favorable executions with respect to all portfolio transactions, as market conditions permit. All transactions made must be in accordance with Investment Policy guidelines and written notice of purchases and sales shall be provided to the Board by the Investment Officer. Said notice shall be deemed provided when included in the monthly Investment Report prepared by the Investment Officer for the Board of Trustees.

The Executive Secretary and/or the Investment Officer, acting in accordance with the Investment Policy Administrative Procedures & Internal Controls and exercising proper due diligence, shall not be held personally responsible for a specific investment's credit and other risks or market price changes provided these are reported promptly to the Board of Trustees and that appropriate action is taken to minimize actual losses to the Trust. At a minimum, prompt reporting is defined as providing written information to the Board in the Executive Secretary's monthly investment report to the Board of Trustees.

IV. MASTER CUSTODIAN

The accumulation of monies to meet the liquidity requirements of the Pension Trust and fulfill other investment objectives set by the Investment Policy shall be accomplished by use of a custody agreement between the Pension Trust and an approved financial institution (the Master Custodian). Said custody agreement shall obtain for the Pension Trust various financial services including, but not limited to, the following.

- 1.) Income and principal collection and crediting on pay date.
- 2.) Daily sweep of all income and principal realizable into an approved Short Term Investment Fund (STIF)
- 3.) Facility of payment, and execution of securities transactions.
- 4.) On-line services to permit and facilitate monitoring of the portfolio
- 5.) Safekeeping of securities

The Master Custodian shall be responsible for the following actions:

- a.) Reporting to the Executive Secretary and/or the Investment Officer situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- b.) Providing assistance to the Executive Secretary and/or the Investment Officer to complete such activities as the annual audit, transaction verification or unique issues as required by the Board.

V. TRAINING AND EDUCATION POLICY

It is the policy of the Board of Trustees to provide periodic training for Board members and staff in the areas of retirement administration, trustee responsibilities, and investment related issues.

VI. ASSET ALLOCATION

The Board shall determine the Pension Trust's long range Strategic Asset Allocation strategy. This strategy shall be reviewed by the Board at least bi-ennially.

Asset Allocation Goals

- 1.) Seek to diversify Trust holdings among different types of debt and equity holdings, or asset classes. Acceptable asset classes for the Pension Trust shall include the following:
 - a. domestic equity (large, mid and small capitalization)
 - b. international equity
 - c. domestic real estate (private and public real estate debt and equity)

- d. domestic fixed income
 - e. international fixed income
 - f. alternative investments (infrastructure, commodities, private equity)
 - g. short-term investments (cash and equivalents)
- 2.) Investment risk and expected return are expected to be smoothed by diversification, as decreases in one area offset increases in another.
- 3.) To the extent appropriate, investment managers with different investment styles will also be considered as a method for diversifying the investments of the Pension Trust.
- 4.) When determining an appropriate Strategic Asset Allocation, the following factors will be taken into account:
- a. a projection of actuarial assets, liabilities and benefit payments, and the cost of contributions;
 - b. historical and expected long-term capital market risk and return behavior;
 - c. an assessment of future economic conditions, including inflation and interest rate levels;
 - d. the current and projected funding status of the Pension Trust.

The Pension Trust's requirements for funding its obligations, as well as its needs for cash flow to pay benefits must be satisfied by any Asset Allocation strategy adopted by the Board of Trustees.

Target Asset Mix

The Asset Allocation targets for each asset class are as follows:

ASSET CLASS	Minimum	Target Allocation	Maximum
Large Cap US Equity	21%	26%	31%
Small/Mid Cap US Equity	4%	9%	14%
International Large Equity	11%	16%	21%
Fixed Income - Global	20%	25%	30%
Real Estate	5%	9%	20%
Private Equity/Venture Cap	0%	5%	7%
Infrastructure	0%	5%	7%
Commodities	0%	5%	7%

These asset allocation targets and ranges are to be considered guidelines to be met under normal circumstances. There may be circumstances where, for purposes of meeting liquidity needs, or for purposes of absorbing significant infusions of cash, the cash holdings of the Pension Trust may temporarily accumulate beyond the parameters established for this asset class. In general, cash balances will be kept to the minimum necessary to maintain the day-to-day operation of the Trust. Furthermore, due to unusual market conditions, there may be periods when illiquid asset classes may be outside of their prescribed ranges. Under such conditions, re-balancing activity is not required.

Total Fund Risk

An appropriate overall risk posture is stated in terms of a target return over inflation. The Pension Trust target rate of real return is **4.00%** for the total portfolio, assuming inflation at **3.75%** per year.

Portfolio Rebalancing

The objective of portfolio rebalancing is to mitigate the risk exposure of the Fund when asset

allocations deviate from policy targets due to capital market movements or cash flows. The Executive Secretary and the Investment Officer shall regularly monitor the Pension Trust's asset allocation and the asset allocation policy set forth in this Investment Policy Statement. The Executive Secretary and/or the Investment Officer shall have authority to rebalance the portfolio in accordance with the following general guidelines:

- 1.) Cash inflows and outflows shall be used to adjust portfolio to target allocations;
- 2.) Asset allocations shall not be allowed to stray outside the ranges defined in the Strategic Asset Allocation
- 3.) In general, should a single asset class vary from its target allocation by five percentage points or more, the entire portfolio will be re-balanced back to target weights. Exceptions to this general rule may occur for illiquid asset classes such as real estate, private equity, and infrastructure.

The Executive Secretary and/or the Investment Officer shall report any re-balancing activity to the Board at the next regularly scheduled meeting.

The Board may, from time to time, issue instructions to the Executive Secretary or to the investment managers to transfer cash and equivalents and/or to liquidate securities for reallocation to other investment managers or other asset classes, but shall do so only after considering the recommendations of the Executive Secretary and Investment Consultant.

Unless instructed otherwise, all interest, dividends, net operating revenue, and capital gains shall be reinvested by the Executive Secretary and/or the Investment Officer (in the case of internally managed portfolios) and by each of the Pension Trust's investment managers (in the case of externally managed portfolios). If it is determined to be in the best interest of the Pension Trust to regularly withdraw interest payments and/or dividends to meet the Trust's cash flow requirements, the Executive Secretary and/or the Investment Officer shall issue such instructions. Said instructions shall be in writing.

Annual Cash Flow Analysis

Prior to the beginning of each calendar year, the Executive Secretary and/or the Investment

Officer will develop an annual cash flow requirement schedule. The schedule will take into consideration:

- a.) likely payments to Plan participants;
- b.) expected contributions from employees and the employer;
- c.) anticipated portfolio changes; and
- d.) other factors.

If a net outflow of assets is required, a schedule of portfolio withdrawals will be developed by the Executive Secretary and/or the Investment Officer for the approval of the Board.

Cash Management

To facilitate the Pension Trust's liquidity requirements, the Executive Secretary shall cause a Disbursement Fund to be maintained to pay benefits and accept contributions. At a minimum, the Disbursement Fund will contain a three-month benefit reserve by the end of each month; at a maximum, a six-month benefit reserve.

The Disbursement Fund will be invested in the Master Custodian's Short Term Investment Fund, or held in the Mission Community Bank account, the Union Bank of California account, or in the County Treasury.

The Disbursement Fund will be replenished at the end of each month as needed.

VII. PERFORMANCE MEASUREMENT STANDARDS

The usefulness of this investment policy depends on the clarity and rigor with which investment objectives and the policy guidelines to achieve those objectives are stated. Therefore, the Board of Trustees has set specific standards for measuring performance of investments. Both the total fund and the individual asset classes will be measured against appropriate indexes, over the course of the market period delineated below.

Time Horizon

This Investment Policy shall operate on a long-term investment horizon, which incorporates a

long-term perspective of capital markets and focuses on the long-term goal of maintaining appropriate funding for the plan. Sound long-range planning should take into account the many short term market fluctuations which will occur over its life and have a level of risk and return which can be adhered to during such times of fluctuation.

- 1.) The measurement period for performance evaluation will be trailing 12 month periods and complete market cycles.
- 2.) Market cycles are defined to include both a rising and a declining leg of at least two consecutive quarters each. The market cycle is a period typically lasting 3-5 years. However, if a market cycle extends beyond five years, a longer time period may be used to evaluate performance.
- 3.) Quarterly performance will be evaluated to review progress toward attainment of longer-term return targets.
- 4.) The Executive Secretary and/or the Investment Officer and the Investment Consultant must further provide the Board with a strategic review of investment performance on an annual basis.

Performance Objectives

The total fund performance, as well as the performance of individual managers, will be measured on a time-weighted total return basis over a full market cycle, typically 3-5 years. Additional consideration will be given to shorter time periods in measuring progress toward medium and long-term objectives

1. The Total Fund is to exceed a custom index consisting of the following:

- 31% S&P 500 Index
Large Cap US Equity and Private Equity
- 9% Russell 2500
Small/Mid Cap US Equity
- 16% MSCI ACWI ex. US
International Equity
- 30% Barclays Capital Aggregate Bond Index
Fixed Income – Global and Infrastructure
- 9% NCREIF Property Index
Real Estate
- 5% DJ UBS Commodities Index
Commodities

2. In addition to Total Fund performance, each asset class should be evaluated independently, and the performance of the asset class' components should be measured against their appropriate benchmarks.

A. Domestic all cap equity strategy is to exceed the Russell 3000 Index as well as the median equity return in a representative performance universe.

B. The domestic large capitalization equity segment of the Fund is to exceed the S&P 500 Index as well as the median equity return in a representative performance universe.

C. The domestic small/medium capitalization equity segment of the Fund is to exceed the Russell 2500 Index as well as the median small/mid cap equity return in a representative performance universe.

- D. The international developed markets large cap equity segment of the Fund is to exceed the MSCI ACWI ex US Free Index as well as the median international developed markets equity return in a representative performance universe.
 - E. The domestic fixed income segment of the Fund is to exceed the Barclays Capital Aggregate Bond Index as well as the median domestic fixed income return in a representative performance universe.
 - F. The international fixed income segment of the Fund is to exceed the Citigroup World Government Bond Index Non-U.S. as well as the median international fixed income return in a representative performance universe.
 - G. The real estate segment of the Fund is to exceed the NCREIF Property Index as well as the median real estate return in a representative performance universe.
 - H. The private equity segment of the Fund is to exceed the Russell 3000 Index + 250 basis points as well as the median equity return in a representative performance universe.
 - I. The commodities segment of the Fund is to meet the Dow Jones UBS Commodities Index.
3. Over the long-term (e.g., ≥ 5 years) the primary objective of the Total Fund is to earn a total return that meets or exceeds the appropriate actuarial assumption rate, net of fees.

VIII. RISK MANAGEMENT STANDARDS

This Pension Trust Investment Policy has been designed to produce a Total Fund, long-term real return.

In 1996 the Risk Standards Working Group prepared a document entitled Risk Standards for Institutional Investment Managers and Institutional Investors. While recognizing that many of these standards were applicable to only the largest institutional managers and plan sponsors, the intent of the document was to specify procedures for handling certain types of risk. The Working Group's final document specified 20 risk standards across the areas of management, measurement and oversight. The key risk standards applicable to the Pension Trust are stated

below:

Management risks include the following:

- Fiduciary responsibility acknowledgment
- Approval of written policies and guidelines
- Well-defined organizational structure and roles
- System back-up and disaster recovery plans
- Identification of key risks & establishing risk limits
- Regular risk reporting

Measurement risks include:

- Asset valuation procedures
- Reconciliation of asset valuation differences
- Risk measurement and risk/return attribution analysis
- Risk-adjusted return measures
- Derivative security policy and controls

Oversight risks include:

- Policy compliance monitoring
- Net of fee and risk adjusted performance evaluation of investment managers

Many, if not all, of the risks associated with the above standards are specifically addressed in this Investment Policy, the operational procedures of the Pension Trust, the Trust's contracts with the Master Custodian and investment managers, and the quarterly performance reporting provided by the investment managers and Investment Consultant.

Key Pension Trust Risks

The key risk areas for the Pension Trust are as follows:

- 1.) Satisfying the cash flow requirements of the Pension Trust's liabilities
- 2.) Sustaining stable or declining contribution rates, while maintaining or enhancing benefits

- 3.) Meeting the performance standards (benchmarks) of the Pension Trust
- 4.) Bearing acceptable risk levels (volatility of returns) for the achieved returns
- 5.) Maximizing custodial and investment manager relationships
- 6.) Minimizing total Pension Trust administrative and management costs
- 7.) Assuring adequate financial reporting from external service providers.

These risks shall be evaluated on an annual basis by the Board of Trustees.

IX. INVESTMENT MANAGER POLICIES

All investment managers engaged by the Pension Trust must:

- 1.) Be registered investment advisors with the Securities and Exchange Commission, trust companies that are regulated by State and Federal Banking authorities, or mutual fund companies.
- 2.) Accept fiduciary responsibility and contractually agree to notify the President of the Board of Trustees and the Executive Secretary in writing if they are unable to continue acting in the capacity of a fiduciary or investment advisor.
- 3.) Maintain adequate insurance coverage, including errors & omissions, surety bond, fiduciary liability, ERISA bond, etc.

Each investment manager hired by the Pension Trust shall be governed by this Investment Policy. Moreover, each investment manager shall be hired by the Board of Trustees pursuant to a written agreement which shall incorporate this Investment Policy and which shall provide that the agreement is terminable at any time, with or without cause, at the discretion of the Board of Trustees.

Investment Managers shall agree to:

- 1.) Maintain the investment approach that the manager was hired to implement under any and all capital market environments.
- 2.) Immediately report in writing to the Board any changes in firm structure, firm management, portfolio management personnel, or the manager's investment decision making process.
- 3.) Fully educate the Board as to the specifics of the manager's investment process.

- 4.) Exclusive of specific Pension Trust investment guidelines, maintain a portfolio that generally conforms to other portfolios managed by the investment manager for other clients. When the Pension Trust's Investment Policy requires the investment manager to manage a portfolio significantly different from portfolios managed for other clients, it is the responsibility of the manager to communicate in writing the potential impact of the Pension Trust's Investment Policy on the portfolio it manages for the Pension Trust.
- 5.) Otherwise, treat the portfolio managed for the Pension Trust in a manner similar to other comparable portfolios managed for other clients in portfolio construction, trading, and all other aspects.

Members of the investment manager's research and portfolio management teams will comply with the CFA Institute Professional Standards and Code of Ethics. Any industry or regulatory disciplinary action taken against members of the investment manager's investment staff must be immediately reported in writing to the Board.

The investment manager shall manage a fully discretionary portfolio for the Pension Trust that meets the provisions of the Pension Trust's Investment Policy.

Unless otherwise specified, the investment manager shall invest the portfolio it manages for the Pension Trust in acceptable investment securities as defined in Manager Guidelines in the form of Addendum B to this document completed for each separate account manager and re-affirmed annually.

If the Board delegates proxy voting responsibilities to its investment managers, the investment manager agrees to vote all proxy ballots according to the best economic interest of the Pension Trust's members and in a manner consistent with the Board's proxy policies.

X. REPORTING

- 1.) Quarterly reports on investment performance shall be made to the Board of Trustees and shall include a review of the Pension Trust's adherence to investment style and discipline as set forth by this policy, a review of current strategy, and recent investment performance. Total return for each asset class shall also be given.
- 2.) Yearly reports on investing performance shall be made to the Board of Trustees and shall

include the above plus an accounting of Operating Income, Distributed Income, Operating Expenses, Capital Expenses, Fees, Buy/Sell Analysis and Strategy for the coming year.

XI. COMMINGLED FUND PARTICIPATIONS

The Board of Trustees acknowledges that when it is in the best interest of the Pension Trust to invest in a commingled vehicle (i.e. collective fund or institutional mutual fund), it is not possible to dictate specific investment guidelines and prohibitions. The Executive Secretary and/or the Investment Officer shall review all commingled fund investment opportunities to determine if the investment strategy and risk characteristics of said commingled fund meet the investment objectives of the Investment Policy within the risk parameters established herein. It shall be the duty of the investment manager of such commingled fund to report to the Board any changes to the investment strategy or guidelines.

XII. INTERNAL CONTROLS

The Executive Secretary shall recommend a system of written internal controls which shall be reviewed at least annually by the Pension Trust Board of Trustees and the independent auditor of the Pension Trust. The controls shall be designed to prevent loss of Trust funds due to fraud, error, and/or misrepresentation.

XIII. POLICY STATEMENT MONITORING

The Executive Secretary and/or Investment Officer shall implement and monitor the Investment Policy and shall report at least monthly on investment activity and matters of significance. The Executive Secretary and/or Investment Officer shall be responsible for reconciling monthly accounting, transaction and asset summary data with custodian valuations, and for communicating and resolving any significant discrepancies with the custodian. Monitoring of compliance with the Pension Trusts Policy Statement will be conducted in the following manner:

1. **Portfolio Investment Compliance**—For individually managed separate accounts, a semi-annual compliance, which requires each investment manager to state if it is in compliance with the Investment Policy. Additional review and follow-up will be performed as needed. Reports on this work will be provided, in writing, to the Board

by the Executive Secretary and/or Investment Officer.

2. **Annual Policy Reporting**—Once a year, the investment managers will be requested by the Executive Secretary and/or Investment Officer to provide a copy of their internal ethics policies, ADV Part I and II, and all other internal policies that relate to the Pension Trust portfolios. Annual derivative reporting requirements are stated in the derivative section of this policy. Finally, the Master Custodian will provide an annual update regarding its investment policies and practices in the management of the Pension Trust’s cash assets managed in the Master Custodian’ sweep vehicle.

XIV. PROHIBITED TRANSACTIONS

The following transactions will be prohibited: short sales; selling on margin; “prohibited transactions” as defined under ERISA; transactions that involve a broker acting as a “principal” where such broker is also the investment manager who is making the transaction; and any or all investment activities forbidden by Securities Exchange Commission or other applicable governing bodies.

XV. TRANSACTIONS AND BROKERAGE

The Board of Trustees hereby instructs its investment managers to seek best execution when conducting all trades. Managers are instructed to seek to minimize commission and market impact costs when trading securities.¹ Also, either internally or through an externally provided transaction cost evaluation service, investment managers are expected to measure the costs associated with their investment trades.

When trading securities, best execution is the paramount consideration of the Board. This objective is expected to provide for and protect the best economic interest of the Pension Trust.

All securities transactions shall be executed through reputable firm broker/dealers who are

¹Market impact for equity trades is based on transaction price relative to the volume weighted average price (VWAP) on the trade date and/or relative to same day closing prices.

members of the NASD.

XVI. ADMINISTRATION OF SHAREHOLDER RIGHTS

(Proxy Voting)

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

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

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

- 1) The proposed slate of directors, assuming directors attend requisite meetings
- 2) Appointment of auditors
- 3) Increases in authorized common stock, not to exceed 100% of existing authorized shares
- 4) Changes in board structure

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

- 1) For issues that involve non-routine business or financial matters, the investment managers would be expected to vote against the non-financial effects of a merger proposal, but for director liability and indemnification, stock option plans and stock splits.
- 2) In the area of anti-takeover issues, it is expected that the investment managers shall vote

against blank check preferred stock proposals, classified boards, shareholder fair price provisions, limiting shareholders' right to call special meetings, limiting shareholders' rights to act by written consent, super-majority voting requirements, reincorporation proposals, issuance of stock with unequal voting rights and elimination of preemptive rights.

3) For corporate governance shareholder proposals, the investment managers will be expected to vote for submitting a company's shareholder rights plan to a shareholder vote, implementing confidential voting, anti-greenmail proposals, opting out of State anti-takeover laws, equal access to proxy materials, submitting golden parachutes to a shareholder vote, adopting cumulative voting and shareholder proposals involving anti-takeover proposals. Investment managers will be expected to vote against requiring a majority of independent directors, limiting the terms of directorship and stock ownership requirements.

4) In the area of socially responsible shareholder proposals, the managers will vote these proxies in the best economic interest of the Pension Trust.

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

XVII. WIRE TRANSFER POLICY

The Master Custodian (Bank) acts as the custodian of the accounts belonging to the Pension Trust.

As a regular course of business, the Pension Trust sends instructions (Wire Transfer Instructions) to the Bank ordering the Bank to send by wire certain Pension Trust funds from the Pension Trust's custodial account at the Bank to the counter-party named by the Pension Trust. These transfers are used in the purchase of investments authorized by the Investment Policy of the Pension Trust.

This Policy shall govern the manner by which the employees of the Pension Trust shall prepare, issue, transmit, and document such Wire Transfer Instructions.

1. All Wire Transfer Instructions shall be in writing except in exceptional circumstances, and then, only in the manner specified below.

2. All Wire Transfer Instructions shall require the signature of at least two of the following authorized persons:

The Pension Trust Executive Secretary

The Pension Trust Investment Officer

The Pension Trust Deputy Executive Secretary

The Pension Trust Financial Accountant/Auditor

3. Each of the above authorized signatories shall confirm the validity and accuracy of the transaction. Wire Transfer Instructions for amounts in excess of \$5,000,000 shall always require the signature of the Executive Secretary.

4. The Executive Secretary and/or Investment Officer shall inform the Bank in writing of the names and positions of said authorized persons and shall instruct the Bank that Instructions are to be accepted from no other persons.

5. Wire Transfer Instructions shall be communicated to the Bank by the usual means of delivery including U.S. Postal Service, commercial mail services, by electronic facsimile or by SWIFT, a Bank proprietary product.

6. The Wire Transfer Instructions shall require that the Bank telephone one of the Pension Trust employees signing the Instructions and confirm the receipt of the Instructions by the Bank and verify with the Pension Trust employee the accuracy and validity of the Instruction. The Wire Transfer Instructions shall specify that (a) the bank employee who makes the verification telephone call to the Pension Trust employee shall be a person other than the bank employee who prepares the Bank's wire documents; and, (b) that the Bank shall document the verification telephone call to the Pension Trust.

7. A copy of the executed Wire Transfer Instructions (fully signed version) shall be maintained in the offices of the Pension Trust in the Wire Transfer Instructions File for a period of four years, and then may be removed to long-term storage until no longer needed and destroyed under the Pension Trust document retention and destruction policy. A copy of each

and every Wire Transfer Instruction shall be routed to the Executive Secretary for information purposes.

8. No voice, or oral, Wire Transfer Instructions shall be permitted except in exceptional circumstances and, then, only with the prior, written authorization of the Pension Trust Executive Secretary and the written authorization of the President, or Vice-President, of the Board of Trustees. Copies of the written authorizations of the Executive Secretary and of the President (or Vice-President) shall be placed in the Wire Transfer Instructions File.

9. Repetitive Transfers - In those instances when the Pension Trust frequently deals with a particular person or entity in the purchase and sale of Pension Trust investments, the Pension Trust Investment Officer is hereby authorized to establish, with the Bank, a standing Wire Transfer Instruction as to such person or entity. The standing Wire Transfer Instruction shall specify the identity of the Pension Trust's counter-party in all legally required particulars and, also, such other information as may be required by the Bank. However, all particulars of this Policy shall apply to such repetitive transfers, including affixing the signatures of two authorized Pension Trust employees to each Wire Transfer Instruction initiating a repetitive transaction.

XVIII. REVIEW AND REVISIONS

The Board of Trustees reserves the right to amend the Investment Policy Statement at any time they deem such amendment to be necessary, or to comply with changes in federal law as these changes affect the investment of Fund assets.

Periodic reviews of the Investment Policy will take place as appropriate and no less frequently than annually.

IN WITNESS HEREOF, the Investment Policy Statement has been approved and executed by the Trustees on this 22 day of March, 2010.

President

Vice President

ADDENDUM B

Investment Manager Guidelines (“form of”)

Manager Name

Sample *type of manager* Separate Account Equity Guidelines

Investment Assignment

Manager Name will be given full discretion within the scope of the San Luis Obispo County Pension Trust Investment Policy Statement and this addendum. *Manager* will be responsible for reviewing these guidelines with the Board of Trustees at least annually to assure the guidelines remain prudent. *Manager* shall discharge its management in a prudent manner, always keeping the best interest of the participants clearly in mind.

Investment Objectives

The investment objectives for *Manager* will be for the asset value exclusive of contribution or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of the benchmarks established for the long term (5 years).

Long Term Performance Objectives: The total equity segment of the portfolio is to exceed the *benchmark* as well as the median equity return in a representative large cap value performance universe.

Investment Guidelines

It is the intention of the Board of Trustees to allow the investment manager full investment discretion within the scope of these mutually agreed upon investment guidelines. The investment manager must adhere to the following investment guidelines unless explicitly authorized in writing by the Board of Trustees to do otherwise.

Equity securities: The securities shall be comprised of common stocks, convertible and non-convertible preferred stocks, convertible debt securities, American Depository Receipts (ADRs), Global Depository Receipts (GDRs), S&P 500 ETFs, and Russell 1000 ETFs.

Derivatives: Investment in derivative securities is prohibited.

Diversification: The securities should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. No more than 7% of the equity portfolio may be invested in one equity security at market.

Prohibited Investments: The portfolio will not engage in investment transactions involving stock options, short sales, purchase on margin, letter stocks, private placement securities, and commodities. No investments shall be made in foreign securities, except American Depository Receipts (ADRs) Global Depository Receipts (GDRs), and foreign securities traded on U.S. exchanges. Further, no investment transactions shall occur outside the United States and no asset of the Fund shall be held outside the jurisdiction of the United States District Courts.

Quality and Marketability: Common and convertible preferred stocks should be listed on either the New York Stock Exchange, American Stock Exchange, NASDAQ system, or national market exchange which have adequate market liquidity relative to the size of the investment. Further, no single equity position in the portfolio may comprise more than 5% of the company's total market capitalization.

Quality and security should be emphasized over maximum return in all short-term cash investments. Investment managers will have discretion as to the types of securities used except that all commercial paper obligations purchased must have minimum respective ratings of P-2 by Moody's or A-2 by Standard & Poor's.

Capitalization: The weighted average market capitalization of the portfolio shall not fall below *benchmark* billion.

Volatility: It is expected that the volatility of the investment manager's portfolio will be reasonably close to the volatility of the *benchmark*.

Statement of Acknowledgement

As an authorized representative of *Manager*, provider of investment management services of the San Luis Obispo County Pension Trust, I hereby acknowledge receipt on behalf of *Manager* and agree on behalf of *Manager* to conduct the investment management services in accordance with the terms of this addendum as well as the Investment Policy Statement as set by the Board of

Trustees.

Date: _____

Signature: _____