

**El Paso County Retirement Plan
Statement of Investment Policy**

November 28, 2011

**STATEMENT OF POLICIES FOR INVESTMENT OF THE ASSETS
OF THE
EL PASO COUNTY RETIREMENT PLAN**

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Preface

In managing the assets of the El Paso County Retirement Plan, the Board of Trustees of the El Paso County Retirement Plan has retained the following providers of investment services to assist in the management of investment assets:

“Investment Assets” Service Providers

Investment Services Provided	Provider
External Investment Managers	Enumerated in Table 2 of Investment Policy
Directed Trustee Bank	Wells Fargo
Securities Lending Agents	Wells Fargo & State Street Global Advisors
Investment Consultant	Watershed Investment Consultants

Whenever the Plan changes investment service providers, on action by the Board this preface shall automatically be amended to reflect such action.

1. El Paso County Retirement Plan Legal Authority

Colorado Revised Statutes, Title 24, Article 54-101, establishes the authorization to maintain this retirement plan of retirement benefits for its elected or appointed officers and its employees, or any class thereof..

2. Purpose of Policy

This Policy is intended to allow for sufficient flexibility to capture investment opportunities, yet provide parameters that ensure prudence and care in the execution of the investment program. This Policy is issued for the guidance of fiduciaries, including Trustees, staff, external investment managers, trustee directed bank, investment consultants and for managing the assets of the El Paso County Retirement Plan. The Policy is intended to provide a foundation from which to oversee the management of the investment of Plan assets in a prudent manner.

3. Investment Objective

The broad investment objective of the Fund is to earn a total rate of return after all expenses that equals or exceeds the actuarial investment rate assumption. The Trustees, with help from the Executive Director and Investment Consultant, will use the fund's asset allocation as the primary tool to achieve this goal.

The Board of Trustees will periodically review and evaluate the continued viability of the investment objective, considering, among other factors, expected future returns on invested assets, short and long-term employer cost trends, and employee benefit and inflation expectations.

4. Duties, Responsibilities and Standard of Care

The Board of Trustees is responsible for all investing activities, including:

- Allocating assets of the Plan to various asset classes
- Selecting an Executive Director to supervise investment operations for the Board
- Selecting professional investment managers (i.e., asset managers, and investment consultant) to assist in investing the assets of the retirement plan
- Selecting the Plan's trustee directed bank
- Selecting the Plan's securities lending agents

In fulfilling its duties, the Board will:

- Receive reports from staff, investment consultant, and others regarding the overall investment portfolio of the Plan and the portfolios within each asset category
- Review investment performance, asset mix, portfolio characteristics, cash flow, transactions, and proposed changes to investment policies, and
- Obtain such expert advice and assistance with respect to its actions as is necessary to exercise its responsibilities prudently.

Funds of The Plan shall be managed and invested by the retirement board of such plan in accordance with the prudent investor rule and the other standards and provisions for trustees set forth in the “Colorado Uniform Prudent Investor Act”, article 1.1 of title 15, Colorado Revised Statutes.

4 A. Duties and Responsibilities of Executive Director

The duties and responsibilities of the Executive Director will include:

- Allocating those assets of the Plan that are held for investment purposes among such investment managers as the Board of Trustees has designated, with such allocation to be consistent with directions from the Board of Trustees as to which portions or percentages of those assets to allocate to various investment managers.
- Monitor each investment manager and report to the Board of Trustees regarding performance
- The Executive Director selected by the Board of Trustees may take all actions necessary to carry out the investment directions of the Board provided such actions are consistent with the terms of the Colorado Revised Statutes, any other applicable law, and this Policy. Such actions include, but are not limited to:
 - Committing the Plan funds for purchasing of securities and making other authorized investments
 - Transferring funds from the accounts at the Plan’s investment assets trustee directed bank
 - Selling securities owned by the Plan
 - Executing documents needed for the transfer of bonds, stocks, and other securities
 - Executing documents for the pledge, substitution and release of securities pledged to secure funds at the investment assets custodian, and
 - Authorizing drafts against funds of the Plan on deposit in the operating accounts with the investment assets custodian

for the purchase of securities or the transfer of funds authorized above

5. Investment Managers

Assets in the El Paso County Retirement Plan investment portfolio are subdivided into asset categories which are itemized in Table 1. The Board of Trustees may appoint investment managers to manage distinct portfolios within these asset categories. The current investment managers of the portfolios are listed in Table 2.

The Board of Trustees is responsible for the selection of investment managers to manage the portfolios within the asset categories. The investment consultant appointed by the Board will assist the Board in the selection process. The investment consultant will conduct the initial search for investment managers and perform the due diligence required in connection with the search. The process for this search will include:

- Developing the minimum search criteria for the investment mandate
- Conducting the request for proposals from investment managers
- Reviewing the manager responses to determine qualifications
- Determining the appropriate managers for the investment mandate, and
- Interviewing the most qualified candidates and subsequently recommending them to the Board for interview, evaluation and selection.

Once the investment consultant has recommended candidates to the Board, the Board will interview and evaluate such candidates and make the final selection of an investment manager.

Investment of Assets. The investment style, guidelines, objectives, and fees for each portfolio under the control of an investment manager will be determined by the Board. The operations of an investment manager with respect to a portfolio will be consistent with: the investment style, guidelines, objectives, and fees established by the Board for such portfolio, the terms of this Policy, and Colorado Revised Statutes and any other applicable law.

Monitoring of Investment Managers. The Executive Director, in conjunction with the investment consultant, will monitor the operations of the investment manager selected by the Board to determine compliance with the investment style, guidelines, objectives, and fees established by the Board for the applicable portfolio.

Review of Investment Manager. The investment consultant will periodically, but no less frequently than once every three years, perform a formal evaluation of the performance of the investment managers, which will be presented to the Board. After considering the evaluations and recommendations of the investment consultant, the Board

will determine what action, if any, should be taken with respect to the investment managers. Such actions may include a reallocation of assets among investment managers, within an asset category, initiation of the removal and replacement of any investment manager, or the initiation of a search for additional investment managers.

Proxy Voting. The investment managers may also be authorized to vote proxies or respond to “corporate action notifications” on securities in such funds, all in accordance with the contracts between the Plan and such managers. Each appropriate investment manager contract will include proxy voting guidelines that have been approved by the Board. Additional proxy voting guidelines may be approved by the Board with respect to domestic or non-domestic securities for use in any investment manager contract.

Directed Trustee Bank and Securities Lending Agents.

- 1. Directed Trustee Bank.** The Board of Trustees, in the exercise of its discretion to manage the investment assets of the Plan, will select a trustee custodian bank to hold and account for the Plan’s cash and securities pending completion of an investment transaction. The trustee directed bank will make available information concerning the holdings and transactions of the Plan to the Board of Trustees, the Executive Director, the investment consultant, and external investment managers. The trustee directed bank has the authority to invest the cash held pending completion of transactions pursuant to Board instructions.
- 2. Securities Lender.** The Board of Trustees, in the exercise of its discretion to manage the investment assets of the Plan, authorizes its trustee directed bank or other qualifying entity to lend the securities of the Plan under terms adopted by the Board.
- 3. Agreements.** The terms by which the securities lending program is conducted shall be reflected in the applicable contractual agreements and Board actions regarding these appointments.

Investment Consultant. The Board of Trustees, acting on the recommendations of the Executive Director, may contract with professional investment managers to assist in investing the assets of the retirement plan. Accordingly, the Board of Trustees will retain an investment consultant to provide investment data, analysis, and recommendations to assist the Board and Executive Director in making optimum investment decisions.

The services that the investment consultant provides to the Board and Executive Director include:

- Analyzing the financial condition of the plan
- Evaluating and recommending asset allocation alternatives
- Developing appropriate investment policies
- Conducting searches for investment managers, directed trustee bank, or securities lending agents

- Assisting the Board in the development of investment manager guidelines and objectives
- Presenting the Board formal evaluations of individual external manager performance
- Measuring on-going performance of investment managers and the fund and reporting such performance to the Board at each public Board Meeting, and
- Providing any other investment-related services or advice that the Board or staff may request from time to time.

The performance of the Directed Trustee Bank and the Investment Consultant will be monitored by the Executive Director. Any misconduct or violations of the terms of the applicable service agreement, or this Policy by an appointee will be reported to the Board by the Executive Director. The Board will periodically review and evaluate the performance of appointees. In such evaluation, the Board may solicit the comments and recommendations of the Executive Director and other external consultants.

6. Investment Guidelines and Performance Measurement for Externally Managed Portfolios

As publicly traded securities investment managers are retained by the Board of Trustees, the Board will establish specific investment guidelines, performance objectives, and fees for each new publicly traded securities investments manager's portfolio, and will authorize the updating of Table 2 to reflect these decisions. The current Investment Objectives and Guidelines for each of the El Paso County Retirement Plan external publicly traded securities investment managers are set forth in their respective current investment manager agreement.

El Paso County Retirement Plan selects its external managers based on the contributions that their investment style and process are expected to make to the overall portfolio. The Investment Objectives and Guidelines for each publicly traded securities investment manager will be incorporated into each respective investment manager's agreement and will set forth the performance expectations and the manager's role in the portfolio. If El Paso County Retirement Plan is invested in a commingled investment vehicle, the manager is expected to adhere to the guidelines governing the respective vehicle. El Paso County Retirement Plan uses Investment Objectives and Guidelines to control risk on a portfolio-wide basis.

The Investment Objectives and Guidelines for each publicly traded securities investment manager will: establish relative and/or absolute performance expectations, which are a function of the efficiency of the asset class and the type of investment strategy employed, delineate which investments and strategies the manager is permitted to use to achieve its performance objectives, and which investments and strategies it is prohibited from using, and specify the characteristics a manager's portfolio is expected to display. These characteristics will be used to monitor such manager's adherence to his investment style to determine that the manager is continuously fulfilling its role in the El Paso County Retirement Plan Portfolio.

The Executive Director and the Investment Consultant will monitor the operations and performance of each investment manager to determine compliance with its Investment Objectives and Guidelines. If an investment manager: fails to conform to its Investment Objectives and Guidelines or fails to operate in a safe and sound manner, experiences a material change in ownership or personnel that impacts the reasons El Paso County Retirement Plan initially hired the investment manager, or violates the terms of its investment manager agreement or other governing agreement, this Policy, the Colorado Revised Statutes, or other applicable law, the Executive Director is authorized to take appropriate remedial action. Remedial action may include immediate termination. The Executive Director shall promptly report to the Board any remedial action taken.

1. Investment Philosophy, Strategy, Return, Asset Allocation and Funding Plans

The Board of Trustees will have an asset allocation plan that sets forth a list of asset categories and corresponding allocation percentages. The Board will annually review the Plan's asset allocation plan, considering: opportunities to balance expected risks and returns by further diversification, the existing allocation percentages and priorities, and possible modification to the asset allocation plan and the list of asset categories. Tables 1 and 2 are updated by Board action to reflect changes of asset categories and allocation parameters.

Concurrent with the annual review of asset allocation plans or whenever changes are made to the asset allocation plan, the Board of Trustees will adopt a current set of capital market assumptions. Section A of Table 1 will be updated by Board action to reflect the current capital market assumptions.

The Board of Trustees has developed the allocation percentages for each asset category as shown in Section B of Table 1. These allocation percentages are market-value based and specify the minimum, maximum, and target percentages authorized by the Board for each asset category.

The funding restrictions defined by the minimum, maximum, and targeted percentages established by the Board for each separate asset category form the framework for allocating assets of the Plan. Within these funding restrictions, and in light of ever-changing market conditions, the Executive Director allocates funds to each investment manager in a manner that, in his judgment, enhances the Plan's ability to achieve the investment objective set forth over the long run. In the event an asset category exceeds the maximum allocation percentage or is below the minimum allocation percentage established for such category, the Board authorizes the Executive Director to rebalance assets in a manner consistent with this Policy in order to achieve the target allocation percentage for the asset category.

On a Board Meeting basis, the Investment Consultant submits to the Board of Trustees a status of the asset allocation and expected funding for the year. Additionally, when market conditions warrant, the Executive Director, in conjunction with the investment consultant, prepares and presents alternative asset allocation and funding plans for Board consideration and action.

TABLE 1

Proposed Asset Allocation

Asset Category (Portfolio)	2011 Capital Market Assumptions *		Asset Allocation Perimeters		
	Expected Return	Standard Deviation	Min %	Max %	Target %
Domestic Equities	7.5%	16.4%	25%	35%	30%
Intl Equities – Developed	7.8%	19.2%	20%	30%	25%
Intl Equities – Emerging	8.7%	28.8%	0%	10%	5%
Hedge Fund-of-funds	7.0%	9.5%	0%	15%	10%
TIPS	2.7%	6.0%	0%	10%	0%
Core Fixed Income	2.7%	4.3%	10%	35%	20%
High Yield	3.7%	13.0%	0%	10%	0%
REIT Equities	5.6%	22.2%	0%	10%	0%
Private Real Estate Partnerships	5.6%	6.0%	5%	15%	10%
	Section A		Section B		

* Watershed Investment Consultants 20 Year Asset Class Forecast dated November 2011

Benchmarks

Asset Category (Portfolio)	Measurement Benchmark (Index)
Domestic Equities	Dow Jones Wilshire 5000
Intl Equities – Developed	MSCI EAFE (Net)
Intl Equities – Emerging	MSCI Emerging Markets
<u>Hedge Fund-of-funds</u>	<u>HFR Macro Index</u>
Core Fixed Income	Barclays U.S. Aggregate
High Yield	Merrill Lynch US High Yield Master II Constrained
Private Real Estate Equity	NCREIF ODCE Equal Weight Index
REIT Equities	Dow Jones Wilshire Real Estate Securities Index
TIPS	Barclays Capital US TIPS

TABLE 2

Proposed Current Funds with Long-term Performance Objective Measurement Standards

Asset Categories (Portfolios)	Investment Manager	Investment Style	Long-term Performance Objective
Domestic Equities	SSgA	passive	Replicate return of Dow Jones Wilshire 5000 index
	Lee Munder	active	Outperform Russell 2000 Value index
International Equities Developed	LSV International	active	Outperform MSCI EAFE net index
International Equities Developed and Emerging	Vanguard FTSE All-World ex US (VFWSX)	passive	Replicate FTSE All-World ex US index
International Emerging	<u>DFA Emerging Markets Value (DFEVX)</u>	<u>Active</u>	Outperform MSCI Emerging Markets index
<u>Hedge Fund-of-Funds</u>	<u>GAM US Institutional Trading II</u>	<u>Active</u>	<u>Outperform the HFR Macro index</u>
TIPS			Barclays Capital US TIPS Index
Core Plus Fixed Income	PIMCO Total Return (<u>PTTRX</u>)	active	Outperform Barclays U.S. Aggregate Bond Index
Core Fixed Income	SSgA Passive Bond	passive	Replicate U.S. Barclays U.S. Aggregate Bond Index
Core Plus Fixed Income	Loomis Sayles	active	<u>Outperform Barclays U.S. Aggregate Bond Index</u>
REIT Equities Real Estate Investment Trusts			Dow Jones Wilshire Real Estate Securities Index
Private Equity Real Estate Partnerships	ING Clarion Lion Properties	Active	Outperform NCREIF ODCE Equal-Weighted index
Private Equity Real Estate Partnerships	ING Clarion Lion Value	Active	Outperform NCREIF index